

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, April 18, 1944, at 4:30 p.m.

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

Mr. Morrill, Secretary
Mr. Paulger, Director of the Division
of Examinations
Mr. Vest, Assistant General Attorney

Mr. McKee called attention to a letter received under date of April 13, 1944, from Mr. W. F. Volberg, Chief Examiner for the Federal Reserve Bank of San Francisco, informing the Board that the Pacific Coast Mortgage Company had denied the request of examiners for the Bank and the Board of Governors that the books and records of the mortgage company be made available for examination, and asking for such further directions from the Board as it might wish to give in the premises. Reference was also made to a letter dated April 13, 1944, from Mr. Clerk, First Vice President of the Federal Reserve Bank of San Francisco, which was received at the same time as the letter from Mr. Volberg. Mr. McKee said that Mr. Dreibelbis, who was in San Francisco at the time, had prepared a draft of letters which he suggested be addressed by the Board to Transamerica Corporation and the Pacific Coast Mortgage Company, and that he (Mr. McKee) and Mr. Vest had reviewed the proposed draft and had prepared the suggested letters in final form, together

4/18/44

-2-

with a letter to Mr. Day, President of the San Francisco Bank, covering the transmission of the two letters.

The letter to the Pacific Coast Mortgage Company was in the following form and the text of the letter to Transamerica Corporation was identical except for an appropriate change in the last sentence:

"The Federal Reserve Bank of San Francisco has communicated with the Board as follows:

'Our examiners are approaching the end of the current examination of Transamerica Corporation and, because of extraordinary questions which have been raised during the course of the examination regarding the relationship of Pacific Coast Mortgage Company to Transamerica Corporation, we wish to obtain additional directions from the Board for guidance in completing the examination.

'The examination of the books and records of Transamerica Corporation and organizations admittedly affiliated with it, together with other information available to the examiners, indicates the existence of such a close relationship between Pacific Coast Mortgage Company and Transamerica Corporation as to suggest the probability of control of Pacific Coast Mortgage Company by Transamerica Corporation within the meaning of the application executed by Transamerica Corporation for the purpose of obtaining a voting permit from the Board.

'Pacific Coast Mortgage Company, under its former name of Bankitaly Mortgage Company, was itself an admitted wholly owned subsidiary of Transamerica Corporation until December 1932, when all of its stock owned by Corporation of America, a wholly owned subsidiary of Transamerica Corporation, was transferred to Mr. A. O. Stewart. At all times since, Transamerica Corporation has denied an affiliate relationship with Pacific Coast Mortgage Company or control thereof in any manner whatsoever. This claimed change in ownership occurred at a time when the functions performed by Pacific Coast Mortgage Company were for the benefit of Transamerica Corporation and its subsidiaries. Moreover, the transfer of record ownership for the stated consideration of \$3,200,000 was entirely financed by Transamerica Corporation and its subsidiaries, the stock of the

4/18/44

-3-

"company being pledged thereto as collateral. In substance, no new money was involved. Mr. Stewart gave his note for \$1,500,000 to Bank of America N. T. & S. A. to replace a note for \$1,500,000 of Corporation of America held by Bank of America N. T. & S. A., the balance of the reported consideration being covered by his \$1,700,000 note to Corporation of America. Subsequently, through a reduction of \$1,500,000 in the capital of the company and the use of assets thereby released, Mr. Stewart's \$1,500,000 note to Bank of America N. T. & S. A. was eliminated. In September 1935 the \$1,700,000 note was eliminated by transfer of all of the balance of the stock of the Pacific Coast Mortgage Company to a pool known as the "Smith-Mallory Trust", this transfer also being financed by Transamerica Corporation. It is significant that there has not been noted from the records any evidence that during the period in which it was claimed that the ownership of the Pacific Coast Mortgage Company stock rested wholly in Mr. Stewart, any profit or loss accrued to him as ostensible owner.

"It appears that the "Smith-Mallory Trust" was not a trust but was a pool originally organized to operate in Transamerica stock. Four-fifths of its capital of \$250,000 was furnished by Mr. A. P. Giannini. It held the stock of Pacific Coast Mortgage Company only a few months when, by arrangements made by Mr. Giannini, the stock, consisting of 10,000 shares, was distributed principally to officers and directors of Transamerica Corporation and its affiliated organizations. Shortly thereafter, approximately 2,000 of such shares appeared in the name of Mr. Stewart. Again a very large percentage of this distribution was financed by Transamerica Corporation through a wholly owned subsidiary, Transamerica Service Corporation. Early in 1937, the capital of the company was increased by about 9,523 shares after an application was filed with the Commissioner of Corporations of California, in which the company represented that the additional stock was "to be sold in small lots to employees of Transamerica Corporation and affiliated institutions" and that "the applicant feels that this will be to the advantage of the purchasers and also this corporation, because the applicant has very close and satisfactory business relations with Transamerica Corporation and its affiliates**." Mr. Louis Ferrari, who has handled many important legal matters for Transamerica Corporation, and who was then a

4/18/44

-4-

"member of its advisory council, as well as the Vice President and Counsel for Bank of America N. T. & S. A., prepared the application as attorney for the Pacific Coast Mortgage Company. Again Mr. Giannini arranged for the distribution of the stock.

'Notwithstanding the claim that it has not been controlled by Transamerica Corporation since the transfer in 1932, the business of Pacific Coast Mortgage Company has consisted in large part of transactions in stock of Transamerica Corporation and banks and other organizations in which Transamerica Corporation also had substantial interests. The volume of such transactions has been so great that its capital has proved inadequate to meet its financial requirements, as a result of which its borrowings over considerable periods were many times its worth. This need was met by funds supplied almost entirely by Bank of America N. T. & S. A. and Transamerica companies. The records reflect a number of transfers of assets between Transamerica Corporation and Pacific Coast Mortgage Company, and Western States Corporation at times, apparently for convenience, and at prices having little regard, if any, for their intrinsic or market values. Often through such transactions profits and losses were created on the books of the companies affected thereby with little evidence of an existence of that conflict of interest which normally exists between independent organizations entering into purchase and sale agreements.

'Transamerica Corporation, in more than a few instances, initiated and directed negotiations for and financed the acquisition of the entire or controlling interest in banks through various agents and nominees, but, after acquiring such interests, transferred a part of the stock to Pacific Coast Mortgage Company for varying periods of time under circumstances which raise a reasonable doubt as to whether such transactions were bona fide purchases and sales between independent concerns. Apparently whenever Transamerica Corporation wished to make one of these banks a branch of an admittedly controlled bank, or to include one among its admittedly controlled banks, the stock of such bank held in the name of the Pacific Coast Mortgage Company would be re-transferred under circumstances further indicating that the transfer of bank shares to Pacific Coast Mortgage Company had been effected for the purpose of making it appear, contrary to the facts,

4/18/44

-5-

"that Transamerica Corporation did not have stock control during the time such stock was held in the name of Pacific Coast Mortgage Company.

'Another reason for the present need to examine into the relationship of the two organizations is evident when it is considered that the holdings of Pacific Coast Mortgage Company and Transamerica Corporation and its subsidiaries of the stock of National Bank of Washington, Tacoma, when combined, represent a majority of the outstanding shares of such bank. The shares of such bank stock now held in the name of Pacific Coast Mortgage Company were first acquired, along with others constituting a majority control of its common stock, by Transamerica Corporation through its agent and nominee, and transferred to Pacific Coast Mortgage Company much in the same manner as described in the preceding paragraph relating to the acquisition of the controlling interest in other banks by Transamerica Corporation. In fact, 1,583 shares of the National Bank of Tacoma (now National Bank of Washington, Tacoma) stock were transferred as a part of the same transaction in which stock of some of the other banks was transferred to the name of Pacific Coast Mortgage Company. These transfers were requested on December 26, 1936, which was the same date that Transamerica Corporation executed a supplemental application for a voting permit, in which it was required to make a full disclosure of and schedule its ownership of stock in subsidiary and nonsubsidiary banks. On August 12, 1937, Pacific Coast Mortgage Company borrowed \$2,500,000 from Bank of America N. T. & S. A. On the same day Pacific Coast Mortgage Company apparently acquired from Inter-Continental Corporation, wholly owned by Transamerica Corporation, securities at a cost of \$1,430,000, and transferred Bank of America N. T. & S. A. stock to Transamerica Corporation for \$1,052,800, and paid \$1,935,000 on its debt to Transamerica Service Corporation. Pacific Coast Mortgage Company pledged as security for such loan, among others, the 1,583 shares of the National Bank of Tacoma stock which it acquired in December 1936. On August 13, 1937, 1,500 additional shares of stock in such Tacoma bank were transferred by Transamerica Corporation to Pacific Coast Mortgage Company for a recorded consideration of \$292,875, the latter borrowing on such date \$290,000 from Transamerica Service Corporation. On September 28, 1937, Pacific Coast Mortgage Company

4/18/44

-6-

"obtained an additional loan of \$600,000 from Bank of America N. T. & S. A. and pledged as additional collateral with the bank the 1,500 shares of the National Bank of Washington stock. On this same date, Pacific Coast Mortgage Company borrowed \$550,000 additional from Transamerica Service Corporation, collateralized largely by Transamerica stock, and bought stock from Inter-Continental Corporation and Transamerica Corporation at a cost of \$535,000. These transactions left Pacific Coast Mortgage Company owing Bank of America N. T. & S. A. \$3,100,000 secured largely by shares in banks and other companies in which Transamerica Corporation also held substantial interests, and owing to Transamerica Service Corporation \$2,390,000 largely secured by shares of Transamerica Corporation. This brought the total to \$5,490,000. Since that time, these 3,083 shares of National Bank of Washington stock have been under pledge to secure indebtedness of Pacific Coast Mortgage Company at Transamerica Corporation or Bank of America N. T. & S. A.

"Likewise, all of the stock of Bankamerica Company, a securities company, formerly an admitted wholly owned securities affiliate of Transamerica Corporation, is now carried as an asset of Pacific Coast Mortgage Company. Before the expiration of the period within which Transamerica Corporation was required to divest itself of any interest in Bankamerica Company, a securities company, its stock, as has been previously reported to the Board, was transferred on December 27, 1937 to Western States Corporation, a corporation which had been organized in that month. Of the \$5,250,000 total capital and paid in surplus of Western States Corporation, 95 percent or \$5,000,000 in non-voting stock was carried on the books of Capital Company, an admitted subsidiary of Transamerica Corporation, and 5 percent or \$250,000 in voting stock was carried as an asset on the books of Pacific Coast Mortgage Company. Pacific Coast Mortgage Company borrowed \$250,000 from Bank of America N. T. & S. A. for this purpose. On December 24, 1937, First National Corporation of Portland, a Transamerica subsidiary, transferred, through Transamerica Service Corporation and Walston & Company, 700 shares of stock of the First National Bank of Portland for the amount of \$192,395. It appears that this stock was acquired by Western States Corporation for \$192,570. On December 27, 1937, all of the outstanding stock of Bankamerica Company was transferred to Western States Corporation for \$600,000,

4/18/44

-7-

"and 1,917 shares of stock of Northern California Bank of Savings (a Transamerica subsidiary) were transferred to Western States Corporation on December 28 through Transamerica Service Corporation for \$862,650, both blocks of stock having come from Transamerica General Corporation, wholly owned by Transamerica Corporation. On December 28, 1937, Western States Corporation borrowed \$1,900,000 from Transamerica Service Corporation and pledged as security therefor 269,450 shares of Transamerica stock which it acquired on the same date from Pacific Coast Mortgage Company in the total of 351,140 shares mentioned below, and Western States Corporation also borrowed, on the same date, \$860,000 from Bank of America N. T. & S. A., which it secured by a pledge of the 1,917 shares of Northern California Bank of Savings stock and the 700 shares of First National Bank of Portland stock. Western States Corporation thus had obtained from capital and paid in surplus \$5,250,000, and from borrowed funds \$2,760,000, or a total of \$8,010,000. At this same time, December 28, 1937, Pacific Coast Mortgage Company owed by notes payable to Transamerica Service Corporation \$4,990,000. This sum included its \$290,000 note executed to Transamerica Service Corporation on August 13, 1937, when the 1,500 additional shares of the Washington bank stock were transferred to it. To secure this sum Pacific Coast Mortgage Company had pledged to Transamerica Service Corporation 421,267 shares of Transamerica Corporation stock. On December 27 and 28, 1937, Pacific Coast Mortgage Company sold 351,140 shares of Transamerica Corporation stock to Western States Corporation for \$5,037,609.75, which shares evidently were part of the block released by Transamerica Service Corporation to Pacific Coast Mortgage Company upon the payment by the latter of its notes in the sum of \$4,990,000 on December 28, 1937. Transamerica Corporation sold to brokers, and the brokers sold to Western States Corporation, on December 23, 24, 27, 28, 29 and 30, 1937, a total of 30,000 shares of Bank of America N. T. & S. A. stock for a total consideration of \$1,295,025. Thus in this brief period of less than ten days Western States Corporation disbursed practically its entire capital, paid in surplus and borrowings, as follows:

'To the Transamerica group \$2,950,070 (less certain broker's fees on the Bank of America N. T. & S. A. stock sales) and to Pacific Coast Mortgage Company \$5,037,609.75. Of this latter sum, Pacific Coast Mortgage Company paid \$4,990,000,

4/18/44

-8-

"plus interest thereon, to Transamerica Service Corporation. The Transamerica group therefore received back \$6,900,000 supplied by it and also about \$1,040,070 supplied by Bank of America N. T. & S. A., or a total of about \$7,940,070 less certain broker's fees. In these transactions, the following results also were accomplished:

'(1) Pacific Coast Mortgage Company paid Transamerica Service Corporation (a Transamerica subsidiary) \$4,990,000 plus interest with funds derived from the sale of securities by Pacific Coast Mortgage Company to Western States Corporation. The funds with which Western States Corporation made such purchase arose through a capital investment in that company by Capital Company (another subsidiary of Transamerica Corporation).

'(2) Western States Corporation, 95 percent of the capital and surplus of which was owned indirectly by Transamerica Corporation, acquired from Transamerica Corporation 30,000 shares of Bank of America N. T. & S. A. stock, and all of the outstanding shares of Bankamerica Company, with funds furnished to it (\$1,900,000) by Transamerica Service Corporation.

'(3) Instead of Transamerica Corporation, through its wholly owned subsidiary, the Transamerica Service Corporation, being a creditor of Pacific Coast Mortgage Company in the sum of \$4,990,000 secured by 421,267 shares of Transamerica Corporation stock, Transamerica Corporation, through an investment by another of its wholly owned subsidiaries, of \$5,000,000 constituting 95 percent of the capital and surplus of Western States Corporation, became the indirect owner of 95 percent of 351,140 shares of its own stock; and, in addition, Transamerica Service Corporation loaned to Western States Corporation \$1,900,000 secured by 269,450 shares of the 351,140 shares mentioned.

'(4) Western States Corporation, in which Transamerica Corporation had this 95 percent investment interest, became indebted to Bank of America N. T. & S. A. in the sum of \$860,000 secured by bank stock which had been acquired

4/18/44

-9-

"by it the last week of December 1937 at a cost to it of \$1,055,045, which sum Western States had paid directly or indirectly to other members of the Transamerica Corporation group.

'All of such securities so acquired by Western States Corporation were its sole assets other than a small amount of cash. Its liabilities consisted of \$2,760,000 bills payable, \$1,900,000 to a Transamerica wholly owned subsidiary, and \$860,000 to Bank of America N. T. & S. A., and a capital liability of \$5,250,000, of which \$5,000,000 was to Transamerica Corporation through its wholly owned subsidiary, Capital Company. Western States Corporation's transactions with Pacific Coast Mortgage Company and Transamerica Corporation, like the transactions of Pacific Coast Mortgage Company, were of such nature and effected in such a manner as to raise a reasonable doubt as to the independence of either Pacific Coast Mortgage Company or Western States Corporation when one examines the substance and reality as distinguished from mere form.

'All of the stock of Bankamerica Company, a securities company, was transferred by Western States Corporation to Pacific Coast Mortgage Company in November of 1938 after the question had been raised with Transamerica Corporation as to whether, as required by law, it had divested itself of any interest in such securities company. Under the charter of Western States Corporation, Pacific Coast Mortgage Company, as the holder of its entire voting stock, was entitled, upon dissolution and liquidation of the corporation, to preferential treatment by receiving \$275,000 before the non-voting stockholder received any liquidating dividend. However, Capital Company's non-voting stock in Western States Corporation was retired October 30, 1940, at which time it received in exchange for such stock, Bank of America N. T. & S. A. shares to the extent of about \$2,100,000, the note of Pacific Coast Mortgage Company for \$2,200,000, and certain miscellaneous assets, all totaling \$5,000,000. Shortly thereafter, in early January 1941, steps were taken to complete the dissolution of Western States Corporation, and the indications are that Pacific Coast Mortgage Company, instead of receiving the \$275,000 for its \$250,000 investment, took a loss of \$56,141.55.

'The transactions enumerated above do not represent all of the activities and relations between the organizations mentioned and the Pacific Coast Mortgage Company,

4/18/44

-10-

"but are significant and of such nature as, in the opinion of the examiner in charge of the current examination of Transamerica Corporation, in which we concur, to lead him to the conclusion that an examination of the books and records of the Pacific Coast Mortgage Company is necessary in order to disclose fully the effect of such relations upon Transamerica Corporation and other organizations with which it is affiliated, as agreed to in Transamerica Corporation's application for a voting permit.

'In the circumstances, C. A. Reinholdt, examiner for the Federal Reserve Bank of San Francisco in charge of the current examination of Transamerica Corporation, and C. E. Cagle of the examining staff of the Board of Governors, called at the office of Mr. W. L. Andrews, Vice President and Treasurer of Transamerica Corporation, at 2 p. m. on April 6, 1944, and explained to him various facts and circumstances developed during the course of the current examination revealing such relationships between Pacific Coast Mortgage Company and Transamerica Corporation as to indicate control of Pacific Coast Mortgage Company by Transamerica Corporation, and requested that the books and records of the Pacific Coast Mortgage Company be made available for examination. Mr. Andrews stated that Pacific Coast Mortgage Company had not been controlled by Transamerica Corporation since December 1932 and he, therefore, had no authority, and also stated his unwillingness to take any steps to make the books and records of Pacific Coast Mortgage Company available for examination.

'Immediately after our examiner had been denied by Mr. Andrews entrance to the books and records of Pacific Coast Mortgage Company, Mr. Ira Clerk, First Vice President, approached both Mr. A. P. Giannini, Chairman of Transamerica Corporation, and Mr. A. O. Stewart, President of Pacific Coast Mortgage Company. In the interview with Mr. Giannini, followed immediately thereafter by a joint interview with Mr. Giannini and Mr. Stewart (in Mr. Giannini's office at the Bank of America N. T. & S. A.) the salient points raised in this letter were discussed. The need to include Pacific Coast Mortgage Company with an examination of Transamerica Corporation was explained. Attention also was drawn to the provisions of the voting permit application, in which Transamerica Corporation had agreed "that examiners duly authorized to examine banks with which the Applicant is affiliated may examine every bank or other organization owned or controlled by the Applicant either

4/18/44

-11-

"individually or in conjunction with other banks or other organizations owned or controlled by the Applicant in any manner whatsoever". Mr. Giannini steadfastly maintained that there is no relation, such as that implied, between Transamerica Corporation or any of its companies and Pacific Coast Mortgage Company, and that, therefore, he has no authority to grant our examiners access to the books of Pacific Coast Mortgage Company, nor would he do so. Mr. Stewart affirmed the statement made by Mr. Giannini, adding that he would not permit entrance to the books of Pacific Coast Mortgage Company by our examiners.

'It is our opinion that the available facts and circumstances indicate that Pacific Coast Mortgage Company is a corporation controlled by Transamerica Corporation within the meaning of the above-quoted language contained in the application for the voting permit filed by Transamerica Corporation. In view of these conclusions, there is need of an examination of the books and records of Pacific Coast Mortgage Company if the current examination of Transamerica Corporation is to disclose fully its affairs and transactions. We shall appreciate receiving such further directions from the Board as it may wish to give us in the premises.'

"This communication offers little room for doubt but that the records of Pacific Coast Mortgage Company would throw necessary light on important transactions affecting Transamerica Corporation, its subsidiaries, and other organizations with which it may be affiliated or which it may own or control. The Board is mindful of the fact that the management of both Transamerica Corporation and Pacific Coast Mortgage Company have denied the relationship which is indicated to the examiners. At the same time, the Board is sure that you appreciate the fact that the function of the examiner is to inquire fully into the affairs and transactions of the institution examined and make his report on the basis of first hand information. This function is defeated if the examiner, in making his report, must accept the broad conclusions of the management of the examined institution in lieu of factual information. In this instance, in the opinion of the Board of Governors, the recited facts and circumstances justify the examiners in having made the request and confirm the need for an examination of Pacific Coast Mortgage Company in connection

4/18/44

-12-

"with that of the Transamerica Corporation. In the circumstances, the Board requests that the examiners be given access to the books and records of the Pacific Coast Mortgage Company and has asked the Federal Reserve Bank of San Francisco to communicate such request to you by the delivery to you of this letter. A corresponding request is being similarly made of Transamerica Corporation."

The two letters were approved unanimously, together with the following letter to Mr. Day, President of the Federal Reserve Bank of San Francisco:

"This refers to Mr. Volberg's letter of April 13, 1944, in which it is stated that because of extraordinary questions which have been raised during the course of the examination of Transamerica Corporation, regarding the relationship of Pacific Coast Mortgage Company to Transamerica Corporation, additional directions from the Board are desired for guidance in completing the examination. The letter recites at some length the relationship between Pacific Coast Mortgage Company and Transamerica Corporation and other organizations and also recites the requests made on April 6, 1944, that the books and records of the Pacific Coast Mortgage Company be made available for examination.

"After consideration of the contents of Mr. Volberg's letter, the Board has addressed the enclosed letters, dated April 19, 1944, with reference to this matter to Transamerica Corporation and to Pacific Coast Mortgage Company, in which it is requested by the Board that the examiners be given access to the books and records of the Pacific Coast Mortgage Company. It will be appreciated if you will communicate this request to Transamerica Corporation and to Pacific Coast Mortgage Company by the delivery of the enclosed letters to them, respectively, by registered mail, return receipt requested, accompanied in each case by a letter of transmittal signed by the President or First Vice President of your bank.

"It will be appreciated if you will forward to the Board for its records copies of the letters of transmittal, together with the registered mail receipts when returned."

