

Book 357

Bank of America

October 7, 1937 - September 20, 1938

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# TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 7, 1937

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to Secretary Morgenthau

from Mr. Oliphant

Preliminary investigation on the Giannini-Transamerica tie-ups discloses the following:

The stock ownership of Transamerica Corporation, which is the holding company of the Giannini banks and insurance companies (as well as other miscellaneous interests), appears to be very widespread. The corporation has over 23,000,000 shares of common stock outstanding, of which the directors (who appear to be entirely associates of Giannini) admit holding somewhat over 50,000 shares. The company has over 300,000 stockholders, most of them apparently in California. Giannini has always let it be known that he himself has only a moderate personal fortune and a moderate stock interest in the company. He is prima facie supported by the fact that in his proxy fight with Elisha Walker for control of Transamerica in 1931 it was necessary to hold large mass meetings of stockholders throughout California before Giannini obtained the three to one victory. At the present time the Banking Act of 1933 and financial considerations have compelled a change in the form of Giannini's interests in the Bank of America National Trust & Savings Association and Bancamerica-Blair, the investment securities organization. There would appear, however, to be an identity of stockholders of the three entities.

The tie-ups indicated by the present evidence are with the National City Bank of New York and the Anglo-California National Bank of California. The first arises from the fact that Transamerica Corporation is the largest single stockholder of the National City Bank of New York, owning over 10 percent of its stock. Giannini is on the Board of Directors of the National City Bank. How far his interest is effective depends upon the distribution of the remaining stock, which has thus far not been disclosed by the investigation; it is conceivable, of course, that two or more interests can be easily depended upon to outweigh the Giannini interest in National City. The Anglo-California National Bank, controlled by the Fleishhacker interests, is the largest competitor of Transamerica in California, but appears to be associated with Giannini through a common ownership in Fireman's Fund Insurance Company and related companies. With the Fleishhacker interests is associated also the Standard Oil Company of California and possibly also the Dollar Steamship Line. It should also be mentioned that Giannini has followed the opportunist policy of associating himself with political powers, especially in California.

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A more definite statement depends upon a study of the stockholders' lists of the Bank of America, N.T.S.A., National City Bank, and the holding companies. This information is available in the office of the Comptroller of the Currency where it is held confidential. F.D.I.C. has by statute a right to examine the information and perhaps the information exists also therefore in the F.D.I.C. files. It is thought that similar information is contained in the Federal Reserve Board files.

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COPY  
Strictly Confidential

October 8, 1937

Secretary Morgenthau

Mr. Olyphant

Preliminary investigation on the Giannini-Transamerica tie-ups discloses the following:

The stock ownership of Transamerica Corporation, which is the holding company of the Giannini banks and insurance companies (as well as other miscellaneous interests), appears to be very widespread. The corporation has over 23,000,000 shares of common stock outstanding, of which the directors (who appear to be entirely associates of Giannini) admit holding somewhat over 50,000 shares. The company has over 200,000 stockholders, most of them apparently in California. Giannini has always let it be known that he himself has only a moderate personal fortune and a moderate stock interest in the company. He is prima facie supported by the fact that in his proxy fight with Elisha Walker for control of Transamerica in 1931 it was necessary to hold large mass meetings of stockholders throughout California before Giannini obtained the three to one victory. At the present time the Banking Act of 1933 and financial considerations have compelled a change in the form of Giannini's interests in the Bank of American National Trust & Savings Association and Bancamerica-Blair, the investment securities organization. There would appear, however, to be an identity of stockholders of the three entities.

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(Signed) Herman Oliphant

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typed 10/7/37

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Notes Concerning the Bank of America National Trust and Savings Association

1. Significance to the Federal Deposit Insurance Corporation

The Bank of America National Trust and Savings Association had insured deposits of \$621,000,000 on May 15, 1936. This figure is more than twice the capital of the Federal Deposit Insurance Corporation and gives some indication of the significance of the one bank to the insurance organization. No other single bank or banking group or chain has as much as one-half this volume of insured deposits. Most nearly comparable are Security First National Bank of Los Angeles with \$298,000,000 of insured deposits, and National City Bank of New York with \$241,000,000 of such deposits. The insured deposits in the Bank of America N. T. and S. A. are greater than the insured deposits in the 4,000 smallest insured banks combined. If this one bank were to fail, the Federal Deposit Insurance Corporation would be required to pay out a greater amount than if the 4,000 smallest banks failed simultaneously. In fact, the one bank seems to be a greater problem than the 4,000 small banks since it represents such a concentration of risk. There is reason to believe that if 5,000 new small banks with \$200,000 of deposits each were to come into existence, they would not represent so great a financial hazard to the Federal Government as does this one bank.

2. Status of the Bank in California

As indicated by the accompanying table, this bank is the dominant element in the banking system of the state.

December 31, 1938

	<u>Offices</u>	<u>Percent of total offices</u>	<u>Percent of total assets</u>
Bank of America N. T. & S. A.	466	44	53
Security First National Bank of Los Angeles	120	11	15
American Trust Company of San Francisco	70	7	7
All branch banks	878	85	85
Unit banks	186	17	15
All banks	1,062	100	100

The wide ownership of its stock and the stock of Transamerica Corporation and the fact that it is the only branch system covering all parts of the state further increase the importance of this bank.

#### 5. Importance in the United States

Even in the United States as a whole the Bank of America N. T. & S. A. is the prime case of branch banking, and is the fourth largest bank in the country. No other bank carries on operations over so wide a territory or has nearly so large a number of branches. The only comparable institutions in this country are the two other large branch banks of the state of California and two branch systems of Oregon, one of which is also owned by Transamerica Corporation.

#### 4. Condition of the Bank

On June 30, 1937, the total capital account of this bank amounted to approximately  $7\frac{1}{2}$  percent of the assets of the bank. This indicates that a depreciation of its assets by as little as 8 percent would more than wipe out the bank's capital and thus render it insolvent. Whether or not great alarm should be expressed over this low capital ratio depends in part upon the nature of the assets which the bank holds. Consideration of reports of examination of this bank made by national bank examiners indicates that large loans have been made to affiliates and other inside interests. Large volumes of loans are secured by the stock of the bank's holding company affiliate, which in effect reduces the sound capital of the bank even below the  $7\frac{1}{2}$  percent figure.

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Moreover, in 1933-1934 this bank had over \$100,000,000 of non-conforming real estate loans, and in October 1936 (date of the latest examination) this figure was still above \$75,000,000. More than one-fourth of the real estate loans of the corporation do not conform to the requirements of the national bank law and, therefore, should be considered illegal loans. Approximately \$48,000,000, or nearly half the capital funds of the bank are invested in banking house, furniture and fixtures, (the comparable figure in 1933 was \$42,000,000) and beside this it has real estate other than banking house of \$58,000,000 (including real estate placed in the hands of affiliates under contract), loans to affiliates of \$20,000,000 (exclusive of loans to affiliates holding real estate acquired by the bank), and loans on stock of Transamerica Corporation to the extent of \$8,824,000. Loans on Transamerica Corporation stock increased from \$7,800,000 to \$9,400,000 between November 1935 and April 1936. On April 10, 1935, 22 percent of the loans of this bank were to directors, officers and employees and to corporations in which they were largely interested, and 15 percent of the loans of the bank were still of that nature at the time of the latest examination available - October 14, 1936. On this date, extensions of credit to affiliates were 65 percent of sound capital.

There is considerable evidence to indicate that during the rise in bond prices in 1935 and 1936 this bank followed the practice of writing up its securities to market price. In part this was done by selling securities in the market and buying new ones at the same high price level; but in part values were simply marked up on the books of the bank. Records in the office of the Comptroller of the Currency show that in 1935, government bonds were written up \$5,000,000 and municipal bonds \$3,000,000, and that in 1936 further write-ups of \$6,000,000 occurred. During these same two years some \$10,000,000 of profits were realized from sale of securities. Thus, in the two years, some \$24,000,000 of "profits" came from the bond market boom. It would thus appear that at the beginning of 1937 when bond prices reached a peak, the Bank of America was carrying its bonds at practically market price. If this is the case, then the decline in bond market prices during 1937 must leave the bank with its bonds valued far above current market price.

On December 31, 1936 the bank held \$461,000,000 of U. S. Government securities and \$162,000,000 of other securities, or a total portfolio of \$623,000,000. A conservative estimate indicates that the market value of these securities must have fallen at least \$25,000,000 from January 1 to October 15, 1937. Since the realized security profits and write ups of 1935 and 1936 were not used to increase capital, the \$25,000,000 of security depreciation in 1937 may be deemed to reduce capital

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materially. If it were reasonable for the bank to use profits on securities sales and write-ups of securities values in computing net profits and paying dividends when the market was rising, then it must be necessary that the decline shall be reflected in profits or losses when the market is falling. If this be accepted at least tentatively, the bank must be suffering net losses of some \$13,000,000 this year. If at best this bank was but breaking even after dividend payments in the years of rising bond prices, then its condition must now be rapidly retrograding.

## 5. Policies of the Bank

### Misrepresented Earnings

The most reprehensible practices of this bank appear to be connected with earnings and dividends policy. Earnings figures as presented to the public cannot be reconciled with the examination reports or the other reports made to the Comptroller of the Currency. The reports of examination and the call reports showed the bank to have net operating earnings of \$9,200,000 and net profits of \$9,900,000 in 1935, while the net earnings as presented in Moody's Manual amounted to \$16,300,000. In 1934 the corresponding figures were \$7,200,000, a negative \$2,600,000 and \$8,900,000. In 1936 the bank reported to the Comptroller of the Currency net current operating earnings of \$11,500,000 and net profits, after losses, of \$12,500,000, while the figure presented in Moody's is \$22,500,000. For the first half of 1937, the bank reported to the Comptroller net current operating earnings of \$5,900,000, net profits after losses, of \$6,000,000, while the Moody's Manual presents net earnings as \$10,000,000. (Cf. Table I)

Some question is thrown upon the net earnings figures appearing in the Moody's Manual simply from examining the balance sheets presented therein. (Compare the Moody figures of column (5) and column (7) of Table I). An estimate of net profits may be made by adding the net change in capital account during the year to the dividends paid in that year. On this basis one may compute from Moody's that the earnings of the bank were \$9,700,000 in 1935, whereas it was stated in Moody's that net earnings were \$16,300,000. Corresponding figures for 1936 are \$12,200,000 and \$22,500,000, while the corresponding figures for the first half of 1937 were \$6,200,000 and \$10,000,000. It is to be noted that the net profits figures presented by the examiners of the Comptroller of the Currency and reported to the Comptroller by the bank include both profits realized from the

TABLE I

## BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

(Amounts in thousands of dollars)

From Comptroller's figures:

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
	Net current operating earnings	Recoveries, profits on securities and write-ups	Net profits before losses (1)+(2)	Realized losses and Charge-offs	Net profits after losses (3)-(4)	Dividends paid	Net change in undivided profits (5)-(6)	Net change in capital account per balance sheet <sup>1/</sup>	Net profits per share (5) 2,000,000	Dividend paid per share (6) 2,000,000	Net profits excluding write-ups	Net profits excluding profits on securities and write-ups
Year ending Dec. 1934	7,216	2,709	9,925	12,563	2,658	3,750	6,388		1.52		2,658	5,508
Year ending Dec. 1935	8,164	14,776	22,940	13,082	9,858	6,000	3,858	3,881	4.95	3.00	1,858	4,000
6 mos. ending June 1936	5,770	3,902	9,672	4,302	5,370	4,000	1,370	1,372	2.69	2.00	5,370	1,514
Year ending Dec. 1936	11,495	14,645	26,140	13,688	12,452	8,000	4,452	4,539	6.23	4.00	6,445	1,818
6 mos. ending June 1937	5,884	4,287	10,170	4,191	5,979	4,000	1,979	2,072	2.99	2.00	5,979	3,123

From Books:

	Total net earnings	Dividends paid	Dividends paid plus net change in capital account (6)+(8)	Net change in capital account per balance sheet <sup>2/</sup>	Earnings per share	Book value per share
Year ending Dec. 1934	8,869	3,500			4.43	48.58
Year ending Dec. 1935	16,276	6,000	9,705	3,705	8.14	50.43
6 mos. ending June 1936	11,009	4,000			5.50	
Year ending Dec. 1936	22,527	8,000	12,157	4,157	11.26	52.51
6 mos. ending June 1937	10,007	4,000	6,245	2,245	5.00	53.63

<sup>1/</sup> Capital, surplus, undivided profits and reserves for contingencies.  
<sup>2/</sup> Capital, surplus, undivided profits, but excluding all reserves.

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sale of securities and write-ups of the value of securities on the books of the bank. If write-ups were excluded the net profits of the bank in 1955 would have been \$1,900,000 and in 1956 \$8,400,000. If write-ups and profits realized from the sale of securities had both been eliminated the bank would have shown net losses of \$4,000,000 in 1955 and of \$1,800,000 in 1956. We have noted that in no sense did the bank have earnings adequate to pay its dividends in 1954. In 1955 and 1956 it had net profits after losses sufficient to pay the dividends declared only by virtue of the fact that it did write up securities on its books.

#### Dividend Policies

In 1955 the bank paid dividends upon the par value of its stock at the rate of 12 percent and upon book value at the rate of 8 percent. In 1956 these figures were raised to 16 percent and 8 percent respectively. Beginning in the second half of 1957, dividends are being paid at the rate of 19 percent on par capital and 9 percent on book capital.

#### Bank of America National Trust and Savings Association

<u>Year ending December -</u>	<u>Dividends paid as percent of:</u>		
	<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>
1954	-	-	-
1955	12	6	-
1956	16	8	-
1957 (1st half)	16	8	-
1957 (2nd half)	19	9	5 (Sept)

The unsoundness of this extraordinary dividend policy is indicated on several bases. First, the earnings data which we have just discussed show that such dividends were not earned. Second, the volume of substandard assets held by the bank further indicates the undesirability of such a policy. Even if there were no substantial volume of substandard assets in the bank the present capital ratio would indicate the desirability of building up the capital of the bank either out of earnings or otherwise. Congress, in 1956, saw fit to exempt banks from the undistributed profits tax in order to permit those with inadequate capital structures to apply all or part of earnings thereto. But this gigantic branch bank which is of so much significance to the banking system and the whole country has followed

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the opposite course. Furthermore, it is to be noted that this bank, with its weak capital structure, did not sell stock to the Reconstruction Finance Corporation. In view of this fact it is especially necessary that earnings of the bank be devoted to its rehabilitation rather than to pursuance of the irresponsible dividend policy indicated above. Until the second half of 1937, practically all the dividends of the bank were paid to Transamerica Corporation and used primarily to maintain dividend payments to the stockholders of Transamerica Corporation. During the period 1934-36, Transamerica paid out in cash dividends amounts equal to 96.5 percent of cash dividends received. (Cf. Table II)

6. Price of the Stock of Bank of America National Trust and Savings Association

Since previous to July 1937 practically all of the stock of this bank was in the hands of Transamerica Corporation, it was not quoted upon the market and consideration can only be given to the course of the market since July. Beginning with July, more than 2,300,000 out of a total of 4,000,000 shares outstanding of \$12.50 par value have been in the hands of the public. Thus, the par value of the Bank of America stock now in the hands of the public amounts to approximately \$29,000,000, of a total of \$50,000,000 outstanding. This stock, with a par value of \$12.50 per share and a book value, based on June 30, 1937 figures, of \$26.82, sold in the over-the-counter market during August 1937 in the neighborhood of \$56.00 per share, but by September 27, its price had fallen to \$46.00 per share, and on October 18, the bid price was \$41.00.

Table II

Year	Transamerica Corporation (Amounts in thousands of dollars.)			Excess of dividends received over dividends paid
	Dividends received	Dividends received from Bank of America	Cash dividends paid	
1932	-	None	None	-
1933	5,946	2,242	None	5,946
1934	5,636	3,737	5,903	-267
1935	8,113	5,979	6,484	1,629
1936	11,072	7,972	11,577	-505
1937 - 1st half	-	3,366	4,656	-
1934-36	24,821	17,888	25,964	857

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We may summarize the pertinent facts concerning the Bank of America National Trust and Savings Association as follows:

1. The capital ratio is low and the management shows no disposition to improve it.
2. Overvalued substandard assets are large; banking house, furniture and fixtures and other real estate are as great as capital.
3. The public is grossly misled with respect to earnings.
4. The book value of assets is subjected to unprincipled juggling.
5. An inordinately liberal dividend policy is followed.
6. The relations of the bank with its affiliates have apparently never been thoroughly investigated by supervisory authorities.

Oct. 27, 1937

Confidential

The Giannini System

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The system of enterprises controlled by Amadeo P. Giannini stems from, or is affiliated with, the Transamerica Corporation. The system includes the following National Banks: The Bank of America, N.T.S.A. (having as of December 31, 1936, 466 branches in 285 communities in California), First National Bank in Reno (operating six branches, apparently in Nevada), First National Bank of Portland (operating 34 branches in Oregon). The system also has what may be the controlling interest in the National City Bank of New York and a large interest, the extent of which is at the present point of the investigation undetermined, in Anglo California National Bank of San Francisco (operating 18 branches in California and affiliated with Anglo National Corporation, which holds substantial interests in the First National Bank of Fairfield, California, First National Bank of Longview, Washington, Bank of Suisun, N.A. of Suisun City, California, Mechanics and Merchants National Bank in Vallejo, California, First National Bank of Weed, California, First National Bank of Yreka, California, and at least one state bank).

The system also includes the following state banks: Bank of America (California) (operating nine branches in nine communities in California), Bank of Lake, Northern California Bank of Savings, and an interest, through Anglo California National Bank and the Anglo National Corporation, in Modesto Trust and Savings Bank of Modesto, California.

In addition, the system includes the California Joint Stock Land Bank and the Banca d'America e d'Italia of Italy.

In addition to banks, the system includes the Occidental Life Insurance Company and, with the Anglo National Corporation, the Firemen's Fund Insurance Company and affiliated companies; General Metals Corporation, which is engaged in manufacturing steel products in Oakland and Los Angeles, and several real estate companies, such as California Lands Inc., Merchants National Realty Corp., and Downtown Properties Inc. There should finally be included Bancamerica Blair Corporation of New York City, the investment banking enterprise, which is associated with the system by stockholding and an identity of stockholders and of management.

The expansion of the system is indicated by recent acquisitions. In January, 1937, it absorbed the First National Bank of Long Beach, the First National Bank of Atascadero, California and in March, 1936, acquired control of the First National Bank of Calexico, California (announced by the Comptroller of the Currency as liquidated August 2, 1937); in March, 1937 it acquired First National Bank of Paso Robles, California; in July, 1937 it acquired control of First National Bank and First Savings Bank of Glendora, California. In addition, included among the branches of the Bank of America, N.T.S.A. mentioned above, are 44 acquired during 1936, including the Seaboard National Bank of Los Angeles.

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The practice has been to turn the acquired banks into branches of the Bank of America, N.T.S.A.

The corporate activity of the system has been characterized by increases in the stock of the corporation and the distribution to stockholders of Transamerica, in the summer of 1937, of a large portion of the stock held by Transamerica in Bank of America, N.T.S.A. The purpose of this stock distribution is undoubtedly, in part, to create a market value for Bank of America, N.T.S.A., stock which would enable trading in that stock by Transamerica Corporation as well as the financial divorce of the Transamerica enterprises from the Bank of America, if that should seem advisable.

A consideration of the personnel of the directorate and the income tax history of Giannini and his leading associates compels the conclusion that A. P. Giannini is the only substantial figure evident. It is difficult to say at this point how far Giannini is, in turn, under the domination of National City Bank interests, or those interests under his domination. As compared with other financial giants, Giannini income and investments do not seem to be particularly large. While between 1902 and 1935 he seems to have operated through a personal holding company (with relatives as passive or dummy associates) in investment speculations in his own and other companies, his income tax returns for 1932 on show either moderate income or losses.

The Transamerica Corporation's stock is well distributed, there being approximately 210,000 stockholders. How far Giannini and his friends may have factually determinative stock interests is at this point of the investigation unknown. However, it should be pointed out that when Giannini and the Elisha Walker interests fought for control of the Transamerica system in 1931, it was necessary to hold large mass meetings of the stockholders all through California and otherwise to engage in a widespread campaign in order to bring about the three-to-one vote in Giannini's favor.

With reference to the financial condition statements which have been issued, it is of interest to note that the Transamerica registration statement, Form 24, filed with the SEC in August, 1937, containing schedules as of December 31, 1936, discloses that the certified public accountants, Ernst and Ernst, said with regard to their certification that it covered all subsidiaries "except banks and insurance companies" and that in their opinion the statement, in general, was correct "excepting as it bears on statements of other companies the information on the financial position and operating results of banks and insurance companies as shown in their reports of condition and statements as filed with their respective regulatory authorities ...," all as supplemented by certain notes and supporting schedules "(excepting statements for banks and insurance companies as to which we made no examination)."

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Finally, it should be noted, as evidence of the impression which the published statements have made upon the investing public, that Standard Trade and Securities in February, 1937, informed its readers that Transamerica represented ownership of the largest bank on the Pacific Coast, that "the management is progressive and has taken full advantage of changing situations," that since 1933 deposits have increased and expenses have been reduced, that the Bank of America, N.T.S.A., representing 63 per cent of Transamerica net assets, is the fourth largest bank in the United States; while in July, 1937, the same periodical advised holding the stock for fair possibilities.



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TREASURY DEPARTMENT  
COMPTROLLER OF THE CURRENCY

WASHINGTON

November 2, 1937

ADDRESS REPLY TO  
COMPTROLLER OF THE CURRENCY"

Dear Mr. Secretary:

Pursuant to your request, I am pleased to furnish you the following information with reference to the Bank of America, National Trust & Savings Association. The information is taken from the last examination which we have in our office, which examination was completed on August 17, 1937.

Our examiners are in this bank at the present time and will complete their report in about thirty days. The last examination and the present one is under the direction of Examiner L. H. Sedlacek, who has been in the Service about thirteen years. Chief National Bank Examiner Shanley has been ill in the hospital since the beginning of the summer and was not able to participate in these examinations.

The last report of examination shows —

Capital	\$50,000,000
Surplus	35,000,000
Undivided profits and reserve for contingencies	23,093,000
Estimated value of assets not shown on books	595,371
Total deposits	\$1,266,016,477

The report also shows —

Doubtful assets	\$5,568,807
Estimated losses	6,788,399
Total depreciation in securities	1,074,952

or a total of doubtful, losses and depreciation of \$13,432,158, which deducted from total capital structure of \$108,688,371, leaves a net sound capital structure of \$95,256,213, which is a ratio of net sound capital to deposits of 1 to 13.29. The examiner listed various classes of assets as slow aggregating \$121,783,000.

Net earnings

According to our reports, this bank earned for the calendar year 1936, \$12,450,000 and dividends paid out during the same period amounted to \$8,000,000, leaving a net addition to the bank's undivided

profits of \$4,450,000.

Net earnings up to September 14, 1937 were \$8,233,013 and the bank paid dividends during the first nine months of the year amounting to \$6,400,000.

#### Dividends

This office has no power to fix the rate of dividends to be paid by national banks and can only object when dividends are paid which would impair the surplus, in cases where the surplus is not greater than the capital, or when paid in violation of other provisions contained in Sections 5199 and 5204 of the Revised Statutes.

We have, however, often suggested to various banks that they should not pay dividends and in other cases have recommended a reduction in the rate and usually our suggestions are complied with. Sometimes banking students attempt to fix the dividend rate upon the capital in the bank. This would need some explanation. As an illustration, the First National Bank of New York has \$10,000,000 capital and \$100,000,000 surplus and pays dividends at an annual rate of 100% of its common capital stock.

On August 1, 1937, Transamerica Corporation paid an asset dividend to its shareholders and distributed 5% of the stock of the Bank of America, National Trust & Savings Association to its individual shareholders. The balance of the stock of the national bank is held by Transamerica Corporation. The shares of Transamerica Corporation are listed on the big board of the New York Stock Exchange and are subject to the regulations and rules of the Securities Exchange Commission.

For purposes of comparison, I deem it expedient to give you a similar summary of the Security-First National Bank of Los Angeles, which is one of the larger institutions in California under the supervision of this Bureau and also of the Chase National Bank and the National City Banks of New York City.

The Security-First National Bank of Los Angeles has —

Capital	\$34,850,000
(\$10,850,000 Preferred)	
( 24,000,000 Common )	
Surplus	11,150,000
Undivided profits	17,151,000
Estimated value of assets not shown on books	768,000

The report also shows —

Doubtful assets	\$3,182,807
Estimated losses	1,766,131

At the time of the examination the bank had appreciation in securities of \$3,793,000 and slow assets aggregating \$77,858,000. Deposits aggregated \$573,000,000 and the ratio of sound capital to deposits was 1 to 9.72.

The net earnings of the above named institution for 1936 amounted to \$4,344,000 and \$2,211,250 paid out in dividends on common and preferred stock during the year. The net earnings of the bank for the first six months of 1937 amounted to \$1,873,968 and up to August 1, 1937 the bank paid out in dividends \$3,460,875. A calculation based on the net earnings for the first six months of the year shows that the net earnings of the bank up to August 1, 1937 would be \$2,186,287.

The last report of examination of the National City Bank, made in April of this year shows —

Slow assets	\$75,187,000
Doubtful assets	5,815,000
Estimated losses	25,979,000
Total deposits	\$1,424,000,000

The ratio of sound capital to deposits is 1 to 8.87.

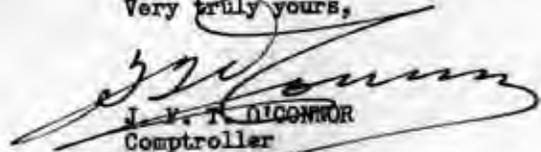
The last report of examination of the Chase National Bank, made in April of this year shows —

Slow assets	\$97,142,000
Doubtful assets	16,185,000
Estimated losses	15,216,000
Total deposits	\$2,005,272,000

The ratio of sound capital structure to deposits is 1 to 8.32.

It is believed that splendid examinations have been made of all the banks mentioned and that the reports of these examinations reflect the true conditions.

Very truly yours,

  
J. V. F. O'CONNOR  
Comptroller

Honorable Henry Morgenthau, Jr.  
Secretary of the Treasury

Return to Room 255

## GROUP MEETING

January 24, 1938.  
12:00 Noon

Present: Mr. Magill  
Mr. Taylor  
Mrs Klotz  
Mr. McReynolds  
Mr. Lochhead  
Mr. Bell  
Mr. Gibbons  
Mr. Haas  
Mr. Gaston  
Mr. Oliphant

H.M.Jr: Well, should I open the meeting by saying it's nice to be back? I can't be honest about it. But I'll say this: Mrs. Morgenthau gave me a prize for the least fussing any ten days I was gone. We had to have something - bank holding companies - so I just wanted to at least stay one step behind the President, anyway.

Isn't that putting it very nicely?

Gaston: You've got to be pretty agile to do that.

Magill: That's perfect.

H.M.Jr: Well, Ros, what do you know?

Magill: Well, that report came over from the S.E.C., as you perhaps have seen.

H.M.Jr: No.

Magill: I sent it in to Mr. Taylor.

H.M.Jr: No, I have not.

Magill: On the Hill, the situation seems to be this. ....

(Bell comes in)

H.M.Jr: Hello, Dan.

Bell: Hello. Glad to see you back.

(Gibbons comes in)

Magill: The Ways and Means Committee is concluding today the public hearings on the tax ....

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H.M.Jr: Hello, Steve.

Gibbons: Glad to see you. Excuse me for being late.  
How are you (Klotz)?

Klotz: Nice to see you.

Magill: The Ways and Means Committee is concluding today the public hearings on the tax bill, and presumably will start in again at the executive session. They have annoyed me somewhat in private conversation with the extent to which they seem jittery and unwilling to carry their own load. I had a lengthy session with them Saturday afternoon, much against my will - with the leaders, in which they went over in detail all of the different suggestions which had been made to them in the course of the public hearings, principally by lobbyists, and they seemed to me extraordinarily impressed by what had been suggested to them, and complained bitterly about the publicity which the Committee had had, the fact that all the publicity had been on the other side, and so on. What they seem to want to do is to slide into the Treasury's lap the job of defending them against all of the various suggestions for changes that have been made by these Washington representatives of various groups.

The most important aspect of that is this proposed tax on closely-held corporations with incomes of over \$50,000. McCormack, of Massachusetts, has fought that very strongly from the time it was first suggested, and now claims to have a majority of the Committee against it. I don't think he has. That is not only the principal remainder of the undistributed profits tax, but I think some provision of that kind is essential. But it's going to be a job of extreme difficulty to keep it in, even in the Committee and even in the House, not to mention the other side of the Capitol.

H.M.Jr: Well now, let me ask you this. When does the Ways and Means Committee think they'll report a bill out?

Magill: Well, Mr. Doughton has thought he was going to report a bill out since about last November 15.

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H.M.Jr: I know, but I mean ....

Magill: So if you spoke to him, he would say he was going to report one about tomorrow. I should say that with luck they might have one by the first of February. But if we have to take care of ex-Governor Gardner of North Carolina and all the other gentlemen who have urged specific amendments upon the Committee, why, they won't have a bill before March 1.

H.M.Jr: Well, do you think it's time that the President should see them again?

Magill: Well, I would - I'd like someone to put a little stiffening in their backbones - what they really need. Vinson has been publicly excellent. He's carried his load in the hearings very well. But they seem to share too much this idea which I noticed was expressed by the Midland Bank in the bulletin Cy Upham dug up for me, to the effect that taxes ought to be satisfactory to the taxpayer, and if they are not they should be repealed. That seems to me a kind of unattainable ideal.

H.M.Jr: Well, I've read the newspapers more carefully when I was away than I ever read them here, and - I mean I got the time to contribute to it every day - and if a person made a synopsis of every business committee and every business organization that makes a recommendation on what to do, they are a hundred percent for doing away with surplus tax and capital gains.

Magill: That's right.

H.M.Jr: And - but ...

Magill: Well, on that, I'm not so much worried by the major aspects of that. I think Vinson's 20-16 plan will be retained without much trouble, and I think their kick on the capital gains is mainly on the complexity of it.

H.M.Jr: Well, let's leave it this way. I'm here, feeling well; I've again gone back to my sled factory for the time being. I mean I got a complete mental rest. I couldn't exercise on account of my back; I wrenched it riding horseback. Horse shot through - couple

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vertebrae out. Saved the horse - which was something.

Well, anyway, if and when you need help, will you run up the proper signal?

Magill: This week, I think, will tell the story.

H.M.Jr: All right.

Magill: My main purpose in these remarks is to give everybody, including myself, a cold shower bath.

H.M.Jr: All right. I notice you say shower bath instead of a bath - not to qualify it - for sixty families.

Magill: This is not the Interior Department. We rely on shower baths over here.

H.M.Jr: All right, fine.

One thing I wish everybody would do - when I ask for things like this, Naster - in the future, when I specifically ask for something, write it down for Mrs. Klotz, and one for Mr. McReynolds, and one for me. When I specifically ask.

I wish, Mac, that you'd ask everybody to give you within a reasonable time all surveys and studies that are being made within the Treasury, and how many people you've got working on them and how long you've been working on them. That includes statistics, research - now, for instance, I asked somebody to give me a report on this self-help thing here and if - the question is, is that the one that the President wanted, you see. I wish you - that includes Health Department, everything. I'd like to know - regular fund, etc. I'd like that regularly once a month from now on. Mac, see? I want everybody: George, Internal Revenue, Customs, Oliphant's office, Magill's office, Bell's office, Accounts and Deposits. I want a report from them of every piece of study and research that is going on. I'd like it once a month.

McR: All right.

H.M.Jr: I think we ought to have it once a month - how much is going into it, how much it costs, all that sort of

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thing. That includes everybody.

- McR: I got a book on that out in my room. We started it once before. That's been kept up-to-date. It may not cover it all.
- H.M.Jr: I'll bet you a five-cent cigar that you can smoke ...
- McR: I don't smoke cigars.
- H.M.Jr: ... that you don't know in your book what Mr. Shoup is doing.
- Mc<sup>A</sup>: There's no report on that.
- H.M.Jr: What?
- McR: No report.
- H.M.Jr: I'll bet you a five-cent cigar you don't know about the study that George Haas is making for Professor Wesley Mitchell.
- McR: I think you'd probably lose that one, because I think George's people are keeping all of that stuff up.
- H.M.Jr: Anyway, will you do that?
- McR: I'm perfectly willing.
- H.M.Jr: So we kind of bring it in. And I promise to look at it. I can't look at it if you don't bring it in.
- But just a little heading - one for Mrs. Klotz and one on Mr. McReynolds' desk.
- What have you (Oliphant) got?
- Oliphant: That of course covers studies and not extended work on an individual case.
- H.M.Jr: Well, I would say studies. I mean, for instance - I don't know what you're doing, but, for instance, a study of branch banking, or anything that is not a case.

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Oliphant: That's not a case.

H.M.Jr: I don't mean cases, but what you call - I don't know what you call it legally.

Oliphant: Study - study project.

H.M.Jr: Study project.

Oliphant: As opposed to - for instance, we'll have a Customs case and we'll work on that opinion for three months - regular staff work.

H.M.Jr: I don't mean that.

Oliphant: Projects.

H.M.Jr: I mean I'm not up-to-date. But the sort of thing that you had Yntema do.

Oliphant: Customs study in New York.

H.M.Jr: Yes.

Oliphant: I'm just in the process of seeing my people and getting up data on hard cases they have left.

H.M.Jr: All right. Does that make it ...

Oliphant: Perfectly clear.

We're ready on that LaGuardia thing. It's being held up in the Department of Justice, so I may have to ....

H.M.Jr: Well, when will you have a suggested bill for me on branch banking - holding companies? Holding companies, not branch banking.

Oliphant: The copy of that is in Taylor's hands now.

Taylor: Got one.

H.M.Jr: All right. Have you (Oliphant) got anything else?

Oliphant: No, nothing except .....

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H.M.Jr: All right. But you understand what I want on studies.

Gaston: The Bulletin of the Section of Paintings and Sculpture, Procurement Division, came over to my office to be looked over, for our approval. It contains an announcement of a new Jefferson nickel - contest for the design.

H.M.Jr: That's right.

Gaston: It's rather an interesting thing; of course, will stir a lot of comment and controversy. I wondered if you wanted to have us make this as your announcement, or should it be handled in some other way. I had a story prepared for a newspaper release on it, if you want to do it in that way.

H.M.Jr: I cleared it at Cabinet.

Gaston: You cleared it at Cabinet.

H.M.Jr: The only thing I didn't clear - I'm doing it on my own initiative - the President said, "Put the buffalo on the back," but that was silly; he wasn't thinking. I mean to have Jefferson's head on one side and the buffalo on the back - you could imagine the kick that would create. So on my own - so let it go.

Gaston: All right. Did you have any contact with anybody on the Hill on the thing?

H.M.Jr: No. Not necessary.

Gaston: Think it's not necessary.

H.M.Jr: Any more than when we got out that dollar. We didn't. Do you?

Gaston: I think it will cause a lot of comment, lot of controversy, because you're giving Jefferson a little more than ever has been given. Washington has had his picture on one side. This has ...

H.M.Jr: Well, we're leaving that great democrat, Lincoln, on the penny.

Gaston: He's only on one side, though.

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Oliphant: What's on the other side of this?

Gaston: Monticello.

H.M.Jr: What do you want, a buffalo on the other side?

Gaston: I haven't any opinion; but it's going to be very interesting. All right, we'll shoot on it.

H.M.Jr: That'll take their mind off holding companies.

Gaston: We'll shoot on it tomorrow, then.

Bell: I still think it ought to be the memorial - the nickel be the memorial to Jefferson.

H.M.Jr: I told the President that at Cabinet and the President said, "Danny would think of that."

Bell: Save money.

H.M.Jr: All right.

Gaston: I guess that's all right.

H.M.Jr: Taylor?

Taylor: Series of things. We've got this holding companies thing; having little trouble with definition there, and we have that ready for you.

Jesse wants to talk to you ....

H.M.Jr: Before.

Taylor: ... before, with the idea of possibly not going to the President on that question about the interest.

H.M.Jr: Ha ha ha!

Taylor: That's this morning's bulletin.

H.M.Jr: Well, I'll tell you something very funny. I've made up my mind that if I went over there with Danny Bell, I was going to sit tight, and the President could ram

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it down his own throat, but I wasn't going to say "lies" - before I'd give up 15 or 20 million dollars. All right. When is the meeting scheduled?

Taylor: He's having - on what?

H.M.Jr: Well, I asked you to have a meeting on Wednesday or Thursday.

Taylor: I don't know whether Cy made it for Wednesday or Thursday. He was to report it into our office. I said I thought Thursday would be a little better.

H.M.Jr: (To Mrs. Klotz) Ask Mr. Jones if he could come at 10:30 tomorrow morning.

Klotz: 10:30.

H.M.Jr: If that would be convenient. Any time between - either 10:30 or 11, whichever suits him best.

Klotz: Yes.

H.M.Jr: See? I'll see Jones tomorrow.

Taylor: He's seeing the President at noon today, but not about that.

H.M.Jr: (Laughs) Now listen, Wayne, I've been down just imbibing sunshine and fresh air, and no exercise, so I've had plenty of time. Got any other good fish stories?

Taylor: Well, let's see ....

H.M.Jr: How are your fallen arches?

Taylor: Apparently it wasn't that at all.

H.M.Jr: Well, I tell you what you do. We'll see now we get along. But before I see Jesse I'll see you - or even later today, or tomorrow morning.

Taylor: All right.

H.M.Jr: Before I see him. What else?

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Taylor: Messrs. McReynolds, Bell, and I have a brief communication to give you.

H.M.Jr: Which is that you leave it to me?

Taylor: Pretty much.

H.M.Jr: Well, we can go into that afterwards.

McR: Yes, that's something I want to talk about.

H.M.Jr: Now, Dan, I can't quite lay my hand on the letter that Jesse wrote me. I wish you'd have that.

Bell: I have the copy of it.

H.M.Jr: Plus an answer for me.

Bell: You want an answer to him?

H.M.Jr: Well, I mean a memorandum.

Bell: Yes.

H.M.Jr: Now, there are two things - now, make a note of this - two things that I want. The letter which Jesse wrote me and which - oh, about a month ago, saying he wanted to do his own financing, which I never answered.

Bell: Yes.

H.M.Jr: And I got to thinking it was a mistake to have a letter like that kicking around and come back six months from now, as to why he'd better do his own financing. I want to answer it, Number One. I want you to draft that.

Number Two. Jesse made a mistake when he wrote me this last letter of January 19, and I want to answer that, and in that I want to remind him that we were ready last June, as I told Mr. Taylor, and Taylor said I could do that; that the Commodity Credit bill has been ready since the date - whatever it was - that they met in Mr. Taylor's office; and, as to the R.F.C. bill, we've been waiting on him and the entire thing is up to him. I don't want him three months or six months from now to say that either the Commodity

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Credit or the R.F.C. bill were waiting for me; and I want to make it plain, as long as he's written me those two letters, that we wouldn't let him do his own financing until he has an honest balance sheet. It's up to him. He's asking for it, and I'm going to give to him, and give it to him perfectly straight. I don't want him to come back and say, "I could have borrowed money at a half of one percent, but Morgenthau wouldn't let me; I could have had a Commodity Credit bill in, but Morgenthau went away for ten days; I could have cleared up the R.F.C., but Morgenthau wasn't ready." It's not so. We've been ready since last June on the R.F.C. bill, ready on Commodity Credit since that meeting took place in his (Taylor) office, where he agreed to everything.

Bell: Around November 15.

H.M.Jr: And then he had to go away on his vacation for three weeks. And I want to make it plain that I will not let him do his own financing until he cleans up his balance sheet. Now, he's written me two letters which I think were silly, but he's done it and I've got to answer them. I can't let them kick around in the office. I mean I'm not going to have Jesse do something which I don't understand and six months from now come back and say, "Morgenthau went away and I had to sit around and wait."

I don't know whether you (Taylor) agree with me or not. But I didn't ask him to write me. But he did, and I'm going to give him just as stiff an answer - perfectly polite, but let him know where we stand.

Taylor: I don't think this last one was intended to be .....

H.M.Jr: In his own handwriting, on the bottom.

Taylor: Yes, I know.

H.M.Jr: "Well, I don't know, personally I think Jesse is a fine fellow, I think he's absolutely trustworthy and honest; but he's the shrewdest horse-trader in Washington, and when he writes me a letter he's got a reason for it, and when our skirts are clean and we've tried our best to cooperate with him, and he's always horse-trading - I just want to make a record.

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Now, I didn't ask him to write me. I don't want him to go on the Hill and say, "Well, I could have borrowed the thing, but Morgenthau didn't let me. He charges me two percent and I could borrow it for a half of one percent." And furthermore he again comes back and says the only reason he reduced the interest rate was so that he could pass it along. Well now, that isn't so.

Bell: Not entirely.

H.M.Jr: Part of the reason for reducing the interest rate was so ....

Bell: Was the adjustment.

H.M.Jr: .... was the adjustment.

Bell: His contention is that that adjustment didn't take into consideration the loans made to states for relief purposes.

H.M.Jr: Well, if you - is it crowding you too much?

Bell: No, I've got a draft of it.

H.M.Jr: But I want you to take the two letters and give me one answer.

Bell: O.K.

H.M.Jr: And if you and Taylor would come in at 10 tomorrow, why, I'll go over it with you at 10 before I see him. See?

Bell: O.K.

H.M.Jr: But I'd like you to draft it, if you would, please.

Bell: I've got a draft of the reply to the letter of January 19. I thought I'd better go back and figure out some of these average rates.

H.M.Jr: But there's another letter which he wrote me previously, saying he wanted to do his own financing, which has never been answered. I don't like these unanswered letters.

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Bell: He picked out a year which was very favorable to the R.F.C. If he went back to the time you came in, he couldn't borrow money ...

H.M.Jr: I'm not asking Gaston to come in on this thing like on the Comptroller General.

Gaston: Oh, you don't want to burn him up.

H.M.Jr: This is just a straight reply.

McR: Were you talking about the Comptroller General?

H.M.Jr: All right. Wayne?

Taylor: That's all.

H.M.Jr: Let's make it 10:30 and make Jones 11. Make Jones 11, and Taylor and Bell 10:30.  
George?

Haas: I've got a few things here. Here are some of these reporting companies. Those figures are the best there is in the business picture.

H.M.Jr: Yes. I saw that the Federal Reserve is releasing them.

Haas: Uh-huh. Those last two figures are their figures, you see, and about equal to a year ago, which is very good considering the situation.

H.M.Jr: Everything else not so good.

Haas: You'll notice Steel has turned there. You'll notice the second one there is U. S. Steel. At least going the right direction.

Bell: How does that compare with last year at this time, on Steel?

Haas: Oh, I've forgot, but it's way down.

Bell: It's way below. It was up in the 50's, wasn't it?

Haas: Last year it was the peak. I don't remember exactly.

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H.M.Jr: Approximately, first two weeks of January - this is approximate, averaging the two - they did about a hundred thousand tons each week; that's the approximate average; against, again averaging, about 350,000 tons a week the previous year.

Bell: Last year.

H.M.Jr: Last year.

Bell: One-third.

H.M.Jr: On the other hand, the merchandising stores are doing well, aren't they?

Haas: That's right. On physical volume the department stores are a little above a year ago.

H.M.Jr: George, I see that Mr. Paul Mazur retained a group to make a study of what happened last year - in today's paper, or Sunday's paper.

Taylor: Sunday's paper, it was.

H.M.Jr: Yes. Retained two German exiles to do a study for him. What is that institute - Social Science, is it? What is that college?

Oliphant: Princeton?

Magill: Social Science Research Council.

H.M.Jr: No, in New York.

Gaston: New School for Social Research.

H.M.Jr: New School for Social Research. Who's the Director?

Magill: Johnson, isn't it?

Haas: Alvin Johnson.

H.M.Jr: Alvin Johnson. They made a study, and the headlines all say, "Against the Taxes." You read all the way down and you don't find a thing against the taxes - not a thing. We ought to get a couple copies, so you can have one, and everybody else that wants one. Magill wants one. Everybody else that - will you?

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Haas: I'll get it.

H.M.Jr: The most unfavorable piece of reporting I ever saw. I read the thing carefully. Did you (Taylor) read it?

Taylor: (Nods yes)

H.M.Jr: I couldn't find anything about taxes, could you?

Taylor: (Nods no)

H.M.Jr: Still the headline says, "Report of Social Science School, Alvin Johnson, Director, Says the Taxes were the Fault of Last Year's Depression." And darned if - I read the whole thing through - I could see it.

Taylor: It was all about junior capital.

H.M.Jr: There wasn't a thing about - the only thing that made sense, I saw Paul Mazur was behind it, and financed by Lehman Brothers. But the reporting - I never saw anything like it.

Could you - you ought to have for me now, George, that business on going back the last year, the analysis.

Haas: I think I'll have that for you.

H.M.Jr: How would you describe it?

Haas: "Chronology of the Business Situation Since July 1, 1936."

H.M.Jr: And what about Wesley Mitchell?

Haas: He's at Nassau, not expected back until February 1.

H.M.Jr: What you going to do?

Haas: Well, we can talk to his assistant, Arthur Burns, that he had down here.

H.M.Jr: Well, have him come down. You see him.

Haas: O.K.

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H.M.Jr: Get him down, will you, quick?

Haas: Do you want to see him when he comes?

H.M.Jr: Yes, if he has anything to say.

Haas: O.K.

H.M.Jr: What else?

Haas: Vanderblue was in to see me. Still pretty blue. Pinned him down, and he thinks there may be a spring bulge.

H.M.Jr: Who's Vanderblue?

Haas: He's with Tri-Continental. He was; I'm not sure he is now, because just before I left on the trip, a man who was with Goldman-Sachs, named Naess, who used to work with me out in Detroit, said he was going over as Vice President in Charge of Research. So maybe Vanderblue is not there; I'm not sure.

H.M.Jr: What else, George?

Haas: I had some interesting charts - some time, if you have time - take quite a little explanation to go over them.

H.M.Jr: We'll get around to it. I've got lots of time. What else?

Haas: Wallace is having some meetings on business conditions about once a month. I haven't attended any of them, but I sent Daggit over there. He has Goldenweiser and Lubin and several other people, and ...

H.M.Jr: Well, if you get a chance ...

Haas: I understand they called you on the last meeting, but you were out of town.

Gaston: Wallace said he was not to be candidate for Governor of Iowa this year.

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H.M.Jr: Senator.

Gaston: Senator, oh yes. Not going to be a candidate for anything.

H.M.Jr: What happened to the price of corn after that announcement?

Gaston: I don't know. Ask George.

H.M.Jr: Anything else, George?

Haas: That's all I have, except ...

H.M.Jr: I'll give you time.

You (Lochhead) gave me - I don't know whether through December or not... I think you did. I don't know whether you did, or Harry White - showing the major movements of gold each month last year, then a little notation what happened. Is that up to December?

Lochhead: Up to December.

H.M.Jr: Did you include the month of December?

Lochhead: Well, included everything they had figures on up to that time.

H.M.Jr: Well, will you bring it to date and through December?

Lochhead: Right.

H.M.Jr: I mean do - I don't know whether it was for the calendar year.

Lochhead: Oh, it ran back the full calendar year.

H.M.Jr: Will you fix it up? (To reporter) Explaining the movement of gold.

What?

Lochhead: Yes, sir.

H.M.Jr: All right.

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Lochhead: I'm holding up the two letters for the February purchase of silver, for both Canada and Mexico. I'm holding them up on the desk.

Taylor: Also holding up the Mexican arrangements with the Fed for the credit.

H.M.Jr: Gave them a word on it.

Taylor: Yes, this will go through, but it wasn't ready for - until about two or three days ago.

H.M.Jr: Gave them a word on it. You mean permitting them to borrow against gold.

Taylor: I don't see any reasons for not doing it.

H.M.Jr: There isn't any reason. I mean because they don't keep their word is no reason why we shouldn't keep ours.

Gaston: That's one of the things they'll ask about this afternoon: whether the commitment to buy silver for February from Mexico has gone through.

H.M.Jr: When does that come through?

Lochhead: They have to apply for the renewal on the middle of the month, which they both do. There is no date set for us to give them the reply. We try to give them the reply so it reaches them by mail in time for the new month's business.

H.M.Jr: What would be the deadline?

Lochhead: The deadline would be somewhere around Wednesday or Thursday of this week.

H.M.Jr: You mean the 31st?

Lochhead: We have to write the letter up to the Fed and they have to write the letter down to Mexico.

H.M.Jr: I thought it was a middle-of-the-month agreement.

Lochhead: No, it runs for the calendar month, but they apply

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for it the middle of each month.

H.M.Jr: I see. Well, have we granted it for February?

Lochhead: Not yet. The letters are all prepared, but they haven't been signed.

There's been very little going on in gold. Haven't been getting any imports to speak of, no exports or no earmarking; but of course we are accumulating quite a lot of domestically produced gold. That has crept up.

H.M.Jr: All right.

Gibbons: On Opper, I took him all around. Pat Harrison has got that under his thumb and they've got to use the paddle on him. I talked to Jim Farley about it. He said, "You can do more with Pat, Steve, than I can right now. You know, I was part of the scheme to kick the ground out from under him that time with Barkley." But Pat has asked me to keep a Customs station down at Biloxi which we were going to drop out. I'm going to do it for him.

H.M.Jr: Getting pretty expensive, getting Opper in there, isn't it?

Gibbons: Well, this thing we'd do anyhow.

H.M.Jr: I put two men on. Had to give Wagner's man a job and President's deacon of his church a job. Let me call.

(On phone) Senator Harrison, please.

Gibbons: He was very nice to us.

H.M.Jr: But he hasn't done anything.

Gibbons: He hasn't done anything, and of course he can just let that thing lay in committee. Everybody else is all right.

H.M.Jr: Who's the secretary of his committee? The boy we always work with.

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Magill: Skeeter Johnston.

H.M.Jr: No, that name isn't familiar.

Magill: Skeeter's the name.

H.M.Jr: He wasn't there last year.

Magill: Yes, he was.

H.M.Jr: Johnston.

Bell: Of the Finance Committee.

H.M.Jr: Yes. All right. Well, thanks anyway for taking him up.

Gibbons: You're going to talk to him now?

H.M.Jr: I'll talk to him.

Gibbons: I have a list here of vacancies in Customs and Internal Revenue, which the President's office - they're sending it over once a week. Don't want to be bothered with that. And each case, of course - some reason why they haven't been filled. Waynard just died in Boston.

H.M.Jr: well, let's leave it this way. You handle it up to the point ....

Gibbons: Getting to an impasse. There are two now. Collector of Internal Revenue up at Tacoma, State of Washington, and Bone and Schwellenbach are at odds.

H.M.Jr: well, perfectly frankly, those things interest me the least of anything in the Treasury - the appointments - and if the fellows are honorable and able and Mac and you are satisfied, I am.

Gibbons: Well, the three cases where one Senator wants one and another Senator wants ....

H.M.Jr: If it gets to a point where you can't, then that's my job. But it really interests me the least.

Gibbons: The office is functioning, and where two Senators disagree, why should we worry about it?

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H.M.Jr: On that Territory of Hawaii - Doyle - I said no.

Gibbons: Jim has told Wilson he'd have to submit another name. Wilson is National Committeeman.

H.M.Jr: But things like that - but up to the point - I mean more than pleased to leave it to you.

Gibbons: Yes. On the posters, I could only get two. In that campaign in '28 the President didn't really run until right about the time of the state convention.

H.M.Jr: Yes.

Gibbons: And his campaign was sort of a tail to the Smith campaign. Nothing available.

H.M.Jr: I see.

(On phone) Hello. (Has conversation with Senator Harrison)

McR: Bob (Wagner) has been home - he's been home sick ever since you left.

H.M.Jr: How many vacancies are there, Mac, on that thing over there - on that Tax ....

McR: There are three yet.

H.M.Jr: You got candidates for them all?

McR: Bob Wagner's candidate will fill one of them. That'll be two left.

H.M.Jr: I mean Steve can just fill those as he sees fit, can he?

Oliphant: No!

(Hearty laughter)

H.M.Jr: All right, that's all I wanted.

Klotz: Hear the department that came from.

Gibbons: Who invented that sound?

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McR: We filled two of them on Herman while he was gone.

Oliphant: Two?

McR: Well, the second one hasn't come through, but it's promised.

H.M.Jr: You (Gibbons) know now, don't you - in a pinch.

Oliphant: When I go away.

H.M.Jr: Well, we'll send you away, if necessary, for another week. In a pinch, now.

McR: Said to me this morning that the department's gone to hell while he's been gone; specifically, because we let Jefty O'Connor resign.

H.M.Jr: I see.

Gibbons: Well, on the ...

H.M.Jr: Send the poster to Mrs. Klotz, will you?

Gibbons: She's got them. I sent them to Miss Chauncey.

H.M.Jr: Posters for the President's party.

Gibbons: There's nothing available.

H.M.Jr: We've got a good slogan.

Bell: I have a couple of Coast Guard matters I'd like to talk to you and Mac about - estimates - sometime.

H.M.Jr: Post card?

Bell: Coast Guard estimates.

H.M.Jr: I wondered ....

Bell: For large airplanes. I'd like to talk to you sometime.

H.M.Jr: All right.

Bell: Now, the other day you asked me about this Stitely case over in the Interior Department. It turns out that Allen paid about \$20,000 to those payrolls.

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H.M.Jr: Who's Allen?

Bell: Chief Disbursing Officer. But I think his records are all clear. He had certifications, signatures in his files, etc. Just a good forgery all the way through.

McR: Plain case of fellow stealing, that's all.

Bell: But I think we ought to have some check-up on just the procedure in the Department - payroll handling - and I've started that. I think we'll find that the certification of payrolls is rather perfunctory not only in this Department but in every other department, so I've started this morning getting a memorandum from each one as to just what is done on these payrolls, and I think we'll have to make some recommendations on it. You see, every payroll that is made up by the bureau head is supposed to go through Mr. Harper and be checked, and I find that some of them do not, and the ones that go up there - why, he takes the certification of the head of the department. Well, that's not a check. I think before we're through that we ought to transfer all of the plates, that is, the name-plates, from the bureau heads to Mr. Harper; that he ought to make up the payroll and send it to the bureau heads for check.

H.M.Jr: Bureau heads in Treasury?

Bell: Yes, and if there are any changes in that payroll it comes back to Mr. Harper before it goes to the disbursing officer. He ought to know why those changes are made.

H.M.Jr: I'd be very much interested to follow it.

Bell: I think we ought ....

H.M.Jr: Has Eddie Bartelt heard anything from his 22 men on Social Security?

Bell: He's been holding conferences the last two days.

H.M.Jr: Will you ask him if he wants to see me, and if there is any state in trouble, tell him to let Mrs. Klotz

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know and I'll see him this afternoon.

Bell: All right.

H.M.Jr: Will you? If there is any state which is in trouble.

Bell: I might tell you that we have paid or will have paid out close of business today \$23,700,000 during the month of January, and we have taken in \$28,500,000, so that we have almost five million dollars receipts over payments. Some of these states, I am quite certain, are drawing out a good deal more than they need. Pennsylvania wants ten million dollars on the first, and they won't listen to any other amount. I think it becomes a good many times a banking proposition. They like to put a big deposit in some bank. Now, Pennsylvania probably won't pay out ten million dollars in two months. We lose interest on the ten million.

H.M.Jr: Do I see that you're showing it on the statement now?

Bell: Yes.

H.M.Jr: All right, Dan. Well, if Eddie Bartelt has anything, tell him to let Mrs. Klotz know and I'll see him. I mean if some state - I'll see the two of you for a couple minutes.

Bell: All right.

H.M.Jr: Only if any state is in trouble.

Bell: I don't think they have had any detailed report yet.

H.M.Jr: All right.

Mac?

McR: The only thing that troubles me, and this is very troublesome, is the Collector of Internal Revenue at Jersey City. You sent in a complaint of political assessment of one of his employees about six weeks or two months ago, and told me to go into it and bring it back. There was a good deal to it. This Mack ....

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H.M.Jr: M-a-c-k?

McR: Yes. ... report about that thing - I don't think there's any question but what Kelly has - well, as a matter of fact, the report shows that he's continued as acting head of their political committees although he submitted his resignation and it wasn't accepted; and I think there's been more uniform definite collection of percentage of salary from all of the employees in the office of that Collector of Internal Revenue than we have ever found any place.

H.M.Jr: Now, here's a place - why shouldn't the Commissioner of Internal Revenue sit on that instead of my having to sit on that thing and spend hours? Why isn't that his responsibility?

Magill: I should think it would be.

H.M.Jr: Will you and Mac watch to see if the job is done, and if ....

Magill: I don't see why you should.

Gibbons: Mr. Secretary, on this fellow - at the time he was appointed, shortly afterwards we had a complaint and Herbert had a lot of correspondence - newspaper articles on it. And that really went over to the White House. They know about his continuing on that board; I mean they just simply forgot about it.

H.M.Jr: Well, I can't - what I'm going to say, for procedure, in order to make the best use of my time - I'm asking McReynolds and Mr. Magill to take it up with the Commissioner and keep Steve Gibbons informed, so that he can let Mr. Farley know what we're doing, because if Mr. Farley knows he'll always play ball.

Gibbons: Sure.

H.M.Jr: He always has; he's never once ... But I'd like a report back by Monday as to what's happened, do you see?

Magill: Yes.

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- H.M.Jr: But I mean this is, if you don't mind - I mean if it gets to the point that some other agency outside of the Treasury interferes, then I'll step in and back you up; but up to that time I don't see why you and Mac and Helvering can't handle it, keeping Steve informed so that ....
- Gibbons: You shouldn't be bothered with this stuff.
- Magill: I don't think it ought to be ...
- H.M.Jr: I mean hours and hours.
- Gibbons: You know, when that fellow was appointed, you spent more time ....
- H.M.Jr: But, Mac, I want a report back on Monday on that. Are you (Magill) willing to accept that?
- Magill: Well, I think somewhat the same situation applies to me as to you. I don't know why the Commissioner ....
- H.M.Jr: Perfectly true, but the Commissioner of Internal Revenue is directly under you, so you send for him and give it to him, will you, with Mac. "This is a new way we're going to handle this thing. If you get to a position that somebody is interfering, let Magill know, and Magill will take it up with me. But up to that time it's up to Helvering."
- Magill: Fair enough.
- H.M.Jr: Huh, Mac?
- McR: Yes, sir.
- H.M.Jr: I mean that takes a half a day, three-fourths. But the important thing is, if Gibbons knows what's going on, then he can tell Farley and Farley will leave us alone. He always has.
- Gibbons: Oh yes.
- McR: "This hasn't gone through Guy because you said to me, "I want you to investigate and report back to me."

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H.M.Jr: Well, you have. Now I think the thing to do is ...

McR: Just as you suggested, I think it's a good idea for Ros to handle it.

H.M.Jr: Have you (Klotz) got anything?

Klotz: Not a thing.

H.M.Jr: Well, see you all tomorrow.

January 26, 1938

1. Holding company affiliate (bank holding company) was defined in the Banking Act of 1933 as any corporation, business trust, association, or other similar organization
  - A. Which owns or controls, directly or indirectly,
    1. A majority of the shares of a member bank, or
    2. Over 50% of shares voted for election of directors of bank at last election, or
  - B. Which controls in any manner election of a majority of the directors of any one bank, or
  - C. For whose benefit substantially all the stock of a member bank is held by trustees.

2. In examining state member banks, Federal Reserve examiners have the duty of examining the affairs of affiliates to disclose fully relationships between them and effect upon the member bank. If resistance is offered, the member banks may lose membership in the Reserve System.

(The Controller has the same powers and duties in connection with affiliates of national banks.)

3. Each state member bank must furnish the Federal Reserve Board at least three reports each year from affiliates (including holding company affiliates). Additional reports may be required by the Federal Reserve Board.

(National banks must furnish similar reports to the Controller.)

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4. Holding companies, if they want to vote their stock in national banks and state member banks, must secure a voting permit from the Federal Reserve Board.

To get a voting permit, they must agree

- A. To be examined by Federal Reserve and Controller, or both.
  - B. To permit examination of all banks in group.
  - C. To build up a special reserve of assets other than bank stocks.
  - D. To not be affiliated with an investment company.
  - E. To declare dividends only out of actual net earnings.
5. Voting permits may be cancelled by the Federal Reserve Board for
- A. Violation of the statute, or
  - B. Violation of the agreement given the Federal Reserve.
6. Penalties after revocation of voting permit may be
- A. National banks may be denied the right to hold public funds.
  - B. National banks may be denied right to pay dividends to the holding company.

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- C. National banks may be cited to court for revocation of charter.
  - D. State member banks may have membership in Federal Reserve cancelled.
7. There is a limit to the amount of loans a member bank can make to a holding company affiliate.
8. Holding companies are limited in their right to vote for directors of reserve banks.

Some Factors Involved in the Question of  
DISSOLUTION OF BANK HOLDING COMPANIES

There was no regulation prior to the Banking Act of 1933, when the Board was given limited authority.

There were 61 groups in the fall of 1933, not including a few with only non-member banks of no great importance in the total figures.

21 groups, through disposal of bank stocks, mergers, conversions to branches, etc., in most cases, have since been either completely terminated or determined under Section 301 to be "accidental" groups, embracing 322 banking offices and deposits of over \$1,200,000,000 in 141 towns.

One other small group was absorbed by a larger one, leaving 39 (of the 61 involving at least one member bank each) groups which embraced 576 banks with 659 branches--1,235 banking offices--and deposits of \$4,540,000,000 in 816 towns in 1933, as compared with 410 banks with 890 branches--1,300 banking offices--and deposits of \$6,360,000,000 in 847 towns at present.

Principal cases of expansion:

	Net increase, 71 towns, 123 banking offices						
Transamerica -	"	"	12	"	14	"	"
Marine Midland -	"	"	10	"	10	"	"
U. S. National Corp. (Ore.) -	"	"	4	"	4	"	"
Almours Securities (Fla.) -	"	"	3	"	3	"	"
Marine Bancorporation (Wash.) -	"	"		"		"	"

Principal cases of contraction, other than explained above:

	Net decrease, 14 towns, 17 banking offices						
Wisconsin Bankshares -	"	"	14	"	17	"	"
First Bank Stock Corp. -	"	"	12	"	12	"	"
Northwest Bancorporation -	"	"	7	"	6	"	"
Old National Corp. (Spokane) -	"	"	2	"	3	"	"
First Security Corp. (Ogden) -	"	"		"		"	"

No new bank holding company groups of importance have been developed since 1933.

Present companies weathered 1931-1933 storm, effected contributions and other assistance in millions of dollars in many cases, \$10,000,000 to \$40,000,000 in several cases, and approximately \$100,000,000 in one case, preventing failures and losses to depositors.

Put on sound and profitable basis, through operating economies, sounder loans and investments, more efficient management, etc., many small subsidiary banks which would have had difficulties as independent banks, especially during last few years.

In no group has condition of banks endangered position of F.D.I.C. In general, asset conditions of group banks are sound and comparatively liquid and capital positions, even with large increases in deposits, compare favorably.

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Supervision of various units of groups facilitated as to details, credits, etc., on account of audits and examinations and daily reviews by continuing trained staff, and as to policies and management through having a focal point for corrective action.

Ample credit and other banking facilities are available for large or small concerns, as well as for debtor communities or areas, leveling interest rates, etc.

Influence of large city correspondents upon many small banks, especially as to "investments", eliminated.

#### Difficulties and Effects of Dissolution

Dissolution without regulation would necessitate definition based upon low percentage of ownership, say 5 per cent, in order to be certain of preventing all cases of control. Thus many hardships would be inflicted unnecessarily.

Distribution of shares would entail endless details and difficulties in a great many cases, as where one company with over 18,000 shareholders, widely scattered, owns varying numbers of shares of each of its 90-odd banks. Absentee ownership would be increased and stockholder interest in the management of the banks would be practically eliminated, thus making it possible for undesirable elements, with but little outlay in buying up fractional or small certificates, to exercise control for their selfish interests.

The sale in the market at anything approaching a fair value of shares in a large number of small banks would be impossible in most cases, giving "insiders" opportunity to pick up stocks at bargain prices and convert groups into chains which are not susceptible of regulation. There is no satisfactory market for stocks of well-known banks, many selling below net sound values. Local capital is neither available nor willing in many cases of small banks. The R.F.C. has over \$550,000,000 in more than 5,000 banks.

The liquidation of banks would be the only practical alternative in many cases.

More important effects would be:

Tightening credit or even liquidation of loans and securities;

Loss of confidence in the banks by depositors (who are not to be compared with purchasers of public utility products), weakening most and possibly wrecking some of the banks;

Possible danger to position of F.D.I.C.;

Serious interference with efforts of supervisory agencies to inject sounder management and more capital into the banking structure.

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Adequate Regulation More Practical than Dissolution

Most of the criticisms of bank holding companies relate to conditions and practices before any degree of regulation was provided for in the law (1933). Others are associated with holding companies in other fields, particularly public utilities. Supposed dangers are not based upon facts or experience and are largely academic and imaginary in many cases.

Remaining criticisms could be greatly reduced, if not entirely eliminated, by desirable legislation along the following lines:

Restrict or prohibit unwarranted expansion and new holding companies.

Broaden regulation by lowering percentage of stock ownership in definition of bank holding company.

Place all bank holding companies under regulation by law rather than through voluntary agreements in connection with voting permits.

Strengthen Board's authority to supervise and provide adequate penalties for violation of law and regulations and principles of sound banking.

Repeal present cumbersome and unsatisfactory voting permit provisions.

Jan 28 1935

ARGUMENTS FOR  
REORGANIZATION OF BANK SUPERVISION.

Under present arrangements 5,300 national banks are primarily supervised by the Comptroller of the Currency; 1,100 State member banks by the Federal Reserve System; 7,500 other insured State banks by the Federal Deposit Insurance Corporation. However, in many matters the functions of these agencies overlap and conflict with resulting confusion, inefficiency, expense, and diffusion of responsibility.

The plan suggested would consolidate under the Board the supervision of all member banks, State and national, and facilitate the coordination of the work of the Federal Reserve System and the F.D.I.C. in the field of bank supervision.

The plan here proposed would tend:

1. To standardize and strengthen Federal examination and supervision of banks.
2. To standardize and reduce the number of reports required from nearly 14,000 banks.
3. To reduce multiple supervisory staffs, including examiners, lawyers, statisticians and other technicians both in Washington and in the field.
4. To reduce the cost of Federal supervision now borne by the banking system.
5. To reduce conflicts in the exercise of similar authority, such as defining such terms as "deposits" and "interest."
6. To reduce the possibility of one agency's exercising its power without reference to the activity of other agencies. (See attached example.)
7. To avoid the confusion of bankers and the public growing out of the existing divided and overlapping authorities of multiple agencies.
8. To standardize conditions under which banks become subject to Federal jurisdiction in whatever form, making for a uniform policy with respect to the organization of new banks.
9. To coordinate examining policy with credit control policy. (See attached statement of Jacob Viner.)

"Recent Legislation and the Banking Situation"  
appearing in the American Economic Review, Vol. XXVI, No. 1,  
Supplement, March 1936.

By Dr. Jacob Viner

"It is evident, therefore, that bank supervision and examination are neither necessary nor sufficient conditions to assure that the banking system will be strong enough to withstand a severe depression without wholesale collapse, although it may be presumed that the record of the American banking system would have been even worse if it had been wholly free from supervision and regulation. But unless it is directed with this danger in mind, the nature of the examining process is itself such as to impose upon the activities of the banks a perverse cyclical pattern from the point of view of stabilization. The examiners, through qualitative credit standards which they impose on banks, indirectly influence the quantity of bank credit. When business is prosperous and optimism prevails, examiners, like the bankers themselves, must tend to appraise credit risks in terms of the favorable conditions of the moment. The bankers, and especially the small bankers, confident that what is good enough to pass the scrutiny of the examiners should be good enough to meet their own standards, persist on their career of credit expansion. Later, when the tide of business turns, when banks begin to fail and loans which were passed without criticism during the boom days have to be written off as bad debts, the examiners are blamed. Reacting in a perfectly natural manner, they become stricter and more exacting in the standards they apply, and they press the banks to liquidate loans and investments which the banks, if left to their own devices, would be happy to keep in their portfolios. The process of bank examination thus tends to encourage credit expansion during the upswing of the business cycle and, more seriously, to intensify credit contraction during the downswing.

"There is an obvious cure for this perverse effect of bank examination, requiring three innovations in the administration of the examinations: unified control of bank supervision and examination; co-ordination of examination policy with credit control policy; and systematic and continuous supervision and instruction of the examiners in terms of a uniform and flexible policy. Fully to attain all of these objectives would require the centralization of all bank examining functions under the direction of the Federal Reserve Board."

Attachment No. 1

Recently the Federal Deposit Insurance Corporation instituted statutory proceedings to terminate a national bank's insurance. Under such proceedings the Corporation notifies the Comptroller of the bank's violations of law and continued unsound practices and, unless the Comptroller obtains correction in 120 days, the Federal Deposit Insurance Corporation may hold a hearing and terminate the bank's insured status, in which event the Comptroller must appoint the Corporation receiver. While the Federal Deposit Insurance Corporation was considering the advisability of instituting proceedings in the subject case, the Comptroller, by certificate filed with the Board of Governors, instituted proceedings to remove the president of the bank from office under section 30 of the Banking Act of 1933. The Board promptly initiated an expensive hearing and during the course of its deliberation in connection with the same, the Comptroller appointed a conservator for the bank. The result was that the Board of Governors removed an officer from a bank for which the Comptroller of the Currency had already appointed a conservator, who in turn was supplanted by the Federal Deposit Insurance Corporation as receiver.

RESUME OF ACTIVITIES OF THE BUREAU OF  
COMPTROLLER OF THE CURRENCY FOR  
YEAR 1937.

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Return to Room 209

LIQUIDATION OF INSOLVENT NATIONAL BANKS.

Number of National and District of Columbia State Bank Receiverships completely liquidated and finally closed Jan 1 to Dec 31, 1937	407
Payments to depositors in these 407 insolvent banks	\$132,239,491.00
Estimated average percentage of deposits paid off	73.69%
Average percentage of expenses of liquidation, including offsets allowed	6.83%

Actual failures of National Banks year ended December 31, 1937				<u>3</u>
<u>Date of failure</u>	<u>Name of Bank</u>	<u>Cause of failure</u>		<u>Percent insured.</u>
Aug 14, 1937	Fort Greene National Bank in New York, N.Y.	Unwise and unethical banking practices.		75%
Aug 24, 1937	The Taylor National Bank, Campbellsville, Ky.	Unethical banking practices.		87%
Oct 22, 1937	Nescopeck National Bank Nescopeck, Penna.	Embezzlement by Cashier.		92%

Active National and District of Columbia State Bank Receiverships as of the close of business December 31, 1937	781
Number of Receiverships completely liquidated and finally closed during the month of December, 1937	66

Sales authorized for 9,188 parcels of Real Estate for a total amount of \$36,280,055.14 which includes 225 bank buildings.

Auction sales made in 111 individual receiverships.

10,000 assets secured by real estate liens in 522 receiverships analyzed during year.

7,853 reports on real estate owned were received and analyzed.

Personal calls made by representatives of this unit on receivers of 200 Trusts.

Proceeds of sales of securities by the Special Liquidator of Securities in New York from Jan 1 to Dec 31, 1937 and also sales directly by receivers from Jan 15 to Dec 31, 1937	\$9,030,148.68
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Number of active National and District of Columbia State Bank Receivers as of <u>January 1, 1937</u>	474
Number of active National and District of Columbia State Bank Receivers as of <u>December 31, 1937</u>	335

SUPREME COURT CASES

Prepared by Legal Division	<u>6</u>	<u>4 won</u>	<u>2 lost</u>
Prepared by outside Attys	<u>3</u>	<u>1 won</u>	<u>2 lost</u>

(FOLLOWUP OF THIS ON PAGE 2)

Petitions to Supreme Court for Writs of Certiorari to review decisions in favor of Receivers in the Circuit Court of Appeals.

Filed by Private Litigants 17 12 denied 5 granted

Petitions filed by Receivers to review adverse decisions by Circuit Court of Appeals.

Number of Petitions 16 8 granted 8 denied

There were on October 31, 1937 approximately 15,000 cases pending involving the 882 then active National Bank and District of Columbia State Bank Receiverships.

Deposits of National Banks for the last three calls.

Date	Number of Banks	Deposits
Dec 31, 1936	5,331 (15,704)	\$27,608,397,000 (\$61,155,014,000)
March 31, 1937	5,311 ( - )	\$26,515,110,000 ( - )
June 30, 1937	5,299 (15,580)	\$26,765,913,000 (\$59,822,370,000)

NOTE: Figures within the brackets are for all banks and are shown to enable a quick comparison as to the proportion that the national banks in number relate to the total number of all banks - also a like comparison as to national bank deposits as against the deposits of all banks.

Net liabilities (Direct and Indirect) of Officers of National Banks.

Date	Number of Banks	Direct liabilities of officers	Indirect liabilities of officers
June 30, 1933	4,404	\$93,743,000	\$43,487,000
June 30, 1937	<u>3,730</u>	<u>30,052,000</u>	<u>17,794,000</u>
Decrease in number of banks	674 (15.3%)		
Decrease in Direct Liabilities		\$63,691,000 (68%)	
Decrease in Indirect Liabilities			\$25,693,000 (59%)

## GROUP MEETING

January 31, 1938.  
9:30 a.m.

Present: Mr. Magill  
Mr. Taylor  
Mrs Klotz  
Mr. Oliphant  
Mr. Gaston  
Mr. Lochhead  
Mr. Upham  
Mr. Gibbons  
Mr. McReynolds  
Mr. Haas  
Mr. Bell

H.M.Jr: Let's see, who isn't here? Who's missing?

Klotz: Bell.

H.M.Jr: Now, what I want to say is - I can't do this by taking it up with each one of you, -- it would be nice if I could. But it affects a lot of you, so if you don't mind, I'll put it to the different ones.

(Haas comes in)

Hello, George.

It won't necessarily come to any decision. Then we can talk about it tomorrow. I mean I haven't got time to sit down with each one of you.

What I am talking about is this - extra-confidential. I think we're going to have trouble on this banking situation, particularly with the Comptroller's office. Now, on the chart it comes under you (Taylor), but if there is something wrong, it would be thoroughly unfair to say, "Well, Wayne, why didn't you look after the Comptroller's office?" Because on the Treasury - if you don't mind my saying, you just didn't.

Taylor: I understand.

H.M.Jr: I mean he just overlooked you, timed it so I got it in just time enough not to do anything about it; so I couldn't say anything about it. See? - I mean all the correspondence was there, so if I said, "Why

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didn't you consult me?" - there's nothing to consult, because he gave me the letter, nicely timed so that I couldn't do anything.

So the question comes up as we get into this thing further, how are we going to do it and who's going to handle it? See what I mean?

We have set up one committee here at the request of Mr. Eccles. Eccles wants us to study the question of where bank examinations should be, and I've asked Taylor and Viner and Riefler and Upham to study that question. Is that right?

Taylor: (Nods yes)

H.M.Jr: Which is - has really nothing to do with the immediate problem, in a sense, although it may come to that. But I mean we're dealing with an emergency, and this is something which - well, I mean to handle it a month from now or not at all, or we may have to handle it in connection with an emergency.

Should there be somebody on from General Counsel's office?

Oliphant: I'd like to call your attention to the fact that early in the Administration I prepared an opinion which held that the Comptroller's office under the law should be more closely integrated in the operation of the Treasury than he would permit. I don't know whether you recall that or not.

H.M.Jr: Well, to go back to that, we started to take over the lawyers and then ...

Oliphant: There was a fight on that.

H.M.Jr: Then you decided that you wouldn't bring it to a head, if my memory serves me right.

Oliphant: That is true of the whole situation.

H.M.Jr: No. No. No. I mean, as I remember, you ruled at the time that you had the authority, didn't you, to go in and take over his lawyers, but when it came down to it, you decided that you wouldn't.

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Oliphant: The three of us discussed it.

H.M.Jr: Who's the three?

Oliphant: You, O'Connor and myself.

H.M.Jr: Who?

Oliphant: You, O'Connor and myself.

H.M.Jr: Well, I can't remember details. I remember I - we got up to the point ...

Oliphant: That's right, and the three of us were in ....

H.M.Jr: And he raised such hell.

Oliphant: There was a fight on our hands. You just let it slide.

H.M.Jr: Yes. But that isn't - well, anyway, if you've got an opinion... Let me put it this way. I called up Oliphant this morning and said I wanted somebody from his shop, not on this committee, but to work with me on this as we - who would be up on this whole banking thing; and he suggested Ed Foley. And again I haven't - these meetings are meetings to discuss things; I said I wanted somebody who would work in sympathy, be "simpaticus," if that's the word, to you (Upham), you see. So - I mean normally I take each of your sides and do - on this I haven't got time. There's no reason why I should have to, see? So you people can be thinking it over and we'll - talk it over amongst yourselves - we'll come back again tomorrow.

But what I want to do is this. There are two things. This thing, for instance, of having somebody just sit up there and watch what the committee is doing - somebody can do that besides Upham.

Magill: Oh yes. Besides, there is not going to be anything on that for a week or two.

H.M.Jr: Because if Upham gets into the thing - well, there is nobody in the Treasury who is as well trained for this particular job as Upham is, and we've got to be

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prepared for all angles, and if he gets into this very deep he may not be able to give you much time. Then the question is for you to say if it is important to you - more important than what I'm going to ask him to do. Everybody's going to have a chance to think it over after I state the problem and come back at me again tomorrow.

Magill: I was going to say two things. First, Upham has not merely been sitting up there watching to see what they did; and second, most of the work which he has been performing very well, I think, is now largely done, and I think he can be released probably for what you have in mind.

H.M.Jr: Well, that's just the point. Well, I meant here recently, the last week, isn't that what he's been doing - sort of a listening post?

Upham: Well, the last week I've been down here most of the time.

H.M.Jr: Well, anyway, if Upham gets into the thing now, am I unnecessarily handicapping you?

Magill: No, no, not now. You would have been a couple weeks ago.

H.M.Jr: But I am not now. All right.

Well then, the thing that I think we want to do is - I mean not on this question of whether the banks - but this question - what I want is two men; then it's up to Taylor to decide if he wants to sit in on everything or whether he doesn't, see? But I want two men to work out of the Secretary's office, and you (Taylor) are part of the Secretary's office. I mean it would be Upham and - if he decided on Foley - nothing decided today - who can work with me on this whole bank situation, see? And you fellows can talk it over amongst yourselves and have another chance.

(Bell comes in)

But as I say, I should think we can talk in here, and if anybody doesn't think I'm going in the right direction, why, they can either say it now or say it at 9:30 tomorrow morning.

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(To Bell) We're talking about a situation which I think is going to develop in the Comptroller's office, and I'm going to prepare myself to really go into it, which I never have before.

So every person can think it over. Do you want to ask me any questions if I haven't explained anything fully? If anybody thinks they should be in on it further ....

Mac, you ought to know - be prepared to tell me just how much authority, Mac, I have from an administrative standpoint. If Oliphant has an opinion, get hold of it and I can study it.

McR: O.K.

H.M.Jr: In other words, just how far can I go before these fellows say, "Well, wait a minute, you're stepping beyond your authority as Secretary of the Treasury"? Mac?

McR: Yes.

H.M.Jr: Now, who wants to ask me something on that?

Oliphant: Well, I didn't answer the question you asked, whether I thought a lawyer ought to be in on that matter of bank examinations. There are angles on it that ...

Taylor: I think it would be very helpful on it to have one.

Oliphant: I'll talk that over with Wayne?

H.M.Jr: Yes. Yes.

Gibbons: I got a clipping .....

H.M.Jr: Wayne definitely heads that up formally.

Gibbons: Got a clipping on my desk this morning - newspaper on the West Coast says Jefty is running for Governor out there because this new organization bill of the President is going to do away with his office.

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- H.M.Jr: Well, you (Gaston) are running a series, aren't you?
- Gaston: Yes, I have a few. Don't know whether I have this particular one.
- Gibbons: Called "Red Ink" - the sheet.
- Gaston: No, I didn't see that one.
- H.M.Jr: Well, doesn't anybody else want to ask something on that?
- Oliphant: Well, just to clarify my own mind preparatory to thinking about it, is one of the questions to be thought about, does Jefty's resignation now give us opportunity for a re-examination of the problem?
- H.M.Jr: No, I'm not raising that at all. I mean that isn't - I mean that's this whole trouble; that's the whole trouble with Eccles. Eccles and what's-his-name - they all think, "Well, with Jefty out of town, now we can all step in." The situation is much more serious than that. The situation - and I don't want at this time to mix anything that is unimportant. That's why I say the thing that Eccles is talking about - they all think, "With O'Connor stepping out now we can step in."
- What I don't want is this particular West Coast situation to blow up in my face, and what I am trying to prepare myself for is that.
- Oliphant: Not get off on more general things.
- H.M.Jr: No, I want to be prepared when this thing blows up. I want it so that if I say to you, "How do they write up Government issues," you can tell me like that and not hesitate about the thing. In other words, it isn't fair to ask you (Upham) when you've been up to the neck saving the surplus tax to know - as the author of the third basket, I mean - to know about this thing. But I want you so you and Foley, if I come in and I ask you a question like that, that you know it, and I expect within a few days that you will know it. See what I mean?
- Upham: Well, I have never seen, for instance, a Bank of America examination report, and I didn't know whether

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I had any right to see one. Now I'll go ahead.

- Taylor: Well, we start off with finding out what the rights of the Secretary of Treasury, vis-a-vis the Comptroller, are.
- H.M.Jr: That's right.
- Taylor: Yes.
- McR: Well, I can tell you this, that with their organization down there - that each National Bank Examiner - I have never failed to get a report of the examination of any bank without any question whatever, and with Jefty's knowledge, and I don't think you'll find any difference there as far as information is concerned.
- So far as a suggestion as to what they do is concerned, they usually will listen very courteously and sympathetically and do as they damn please.
- H.M.Jr: Well, the situation is - it may be quite serious, Mac, see?
- McR: Yes, I know that.
- H.M.Jr: And when I say I want Upham - and Oliphant suggested Foley - I want you also, because when I come to ask for something - I mean the thing would flow from you to the Comptroller's office.
- McR: I want to keep informed about it.
- H.M.Jr: Going to be more than that. If I sit down and write a letter to the Comptroller that I want the report on the Bank of America so I can study it, I want to know before I send it that I'm going to get it. I mean the thing would flow through you to them, and it is up to you to get it. So you want to work very closely with Upham and with Foley, see?
- McR: I don't anticipate you'll have any difficulty in getting things of that kind; but we might just as well find out what you've got a right to do if they should refuse.

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- H.M.Jr: Well, Jesse Jones tells me for the first time that he's had a lot of trouble getting reports on National Banks and usually doesn't get them. But he has got the report of the Bank of America. And of course there is a three-page letter which you should see before I answer, criticizing me for giving - not me, but Crowley, for giving Viner that report on that. But as I told Oliphant ...
- Upham: That's my fault.
- H.M.Jr: well, it's unimportant. But as I told Oliphant, I'm writing O'Connor a letter that I'm not interested in a little bush; we may have a whole forest on fire, and I'm interested in that, and he's talking about a little weed, and I want to keep this forest from catching fire. But I want to be ready so that I can move awful fast.
- Now, one of the things I'm going to ask is this: Could I bring in a President of a National Bank and ask him to advise me on, say, the California situation, and invest him with powers, even though he stays as the President of a Bank? Supposing I want to bring in Tom Smith as a special adviser to me. Can he sit in?
- Oliphant: I've been going into that problem since we got Jeffy's letter; that is, what material you are entitled to have access to and people working for you are entitled to have access to - not only Jeffy's shop, but Crowley's shop.
- H.M.Jr: Could I, for instance, bring in a President of a National Bank and give him - invest him with powers, and he still stays President of that institution?
- Oliphant: I'd want to look into that. Certainly if we make him a regular employee of the Treasury - I'd want to look into that.
- H.M.Jr: Can I have an answer to that in 24 hours?
- Oliphant: Yes.
- H.M.Jr: Dan, in your shop, when they had this banking trouble, who from there sat in on it - I mean did anybody sit in on it?

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Bell: I did.

H.M.Jr: Did you? What end did you sit in on?

Bell: Oh, not much of anything. Wasn't much I could do. But I sat through all of these banking conferences during the banking holiday and answered a good - helped to answer a good many of the telegrams we got, and telephone conversations over the country.

H.M.Jr: But was there anything particular?

Bell: No.

H.M.Jr: I mean it wouldn't naturally come to your shop.

Bell: No, sir.

H.M.Jr: I don't see - we're starting now - why we should load you with this.

Bell: Everybody around here, as a matter of fact, sat in on the banking conference. Got all the help they could. All the rest of the work just stopped.

H.M.Jr: But I mean just nothing ...

Bell: No, sir.

McR: There is just one item of local color ...

H.M.Jr: Speak a little louder, Mac, please.

McR: The Chief Examiner, Gus Folger, told me at the time he was talking about Bill Prentiss for the local Chief Examiner in the San Francisco Division, that for the last five or six years every Chief Examiner they put out there had busted on being able to handle this particular group of banks; that he's never been able to get a satisfactory examination and he'd never been able to give him such support as would enable him to get a satisfactory examination; and the fire had always been built against the fellow from this end and he just couldn't do his job.

H.M.Jr: Built from this end?

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- McR: Gus had tried to give him all the help that was necessary, but had never been supported.
- H.M.Jr: If Folger got the proper backing ...
- McR: Folger would do it. Just as hardboiled as he can be. And no influence will ever reach Folger unless it comes from his boss up front.
- H.M.Jr: Why aren't the National Bank Examiners Civil Service?
- McR: Because - well, in the first place, the theory of it was that they are not paid out of the Federal Treasury and therefore they are not brought in. They ought to be Civil Service. No reason in the world why they shouldn't be and undoubtedly would be brought in under any general reorganization probably; but they are not. And of course there is in the President's bill a discussion of the independent authority that the Comptroller has with respect to this.
- H.M.Jr: Well, one thing that I'd like you to do today for me is - I don't know, Crowley has got a lot of stuff; I haven't seen it. I haven't seen what he gave to Viner. I wish you (Upham) - have you got it?
- Upham: No.
- H.M.Jr: What's happened to it? Have you (Oliphant) got it?
- Oliphant: No.
- Upham: He gave it back to Crowley.
- H.M.Jr: I wish you'd get it and digest it, you see, and see what's in it which is at variance to - I mean what he criticizes.
- Now, what I've got to do, Wayne, is this, and you can - I want Jesse to know. I mean on this bank thing that Cy is the spearhead for us, you see, and if they are doing that particular job, comparing what Crowley has with what the Comptroller has, there is no use our doing it, but I would like him to sit in on it. See what I mean? If they've got what Crowley has got on one hand and what the Comptroller has got, and they're

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matching it up, I want him to be in on it, see? Now, will you call up Jesse and fix that?

Taylor: Yes.

H.M.Jr: You seem a little doubtful.

Taylor: No, I'm not doubtful.

Oliphant: I'd like to suggest ....

H.M.Jr: Do you question the wisdom of it?

Taylor: There are quite a few pieces here that haven't quite got fitted together in my mind. That's the only thing I was looking ....

H.M.Jr: Well, I can wait 24 hours. I can wait 24 hours. I said I could wait 24 hours.

Taylor: I'm not quite sure what the problem is. In other words, this has to do with what has happened in the Comptroller's office and what might happen in the Comptroller's office?

H.M.Jr: There are two problems. The immediate problem is this. I, as Secretary of the Treasury, under the law have a right to ask the Chairman of the R.F.C. to make examinations to see whether banks have sufficient capital or not. He is now in the process of doing that. I want - then I have to ask him to supply this capital. Now, heretofore, he had a little group set up here in the Treasury - R.F.C. did - to make the study and to pass on it. Now, what I am trying to do is to set up a group so when the material comes over from Jesse, this group can take what Jesse sends over here and advise - go through it. Now, maybe it's time enough when it comes over. But when it comes over, if Jesse says, "This bank, that bank, hasn't sufficient capital. Will you write me a letter saying that I should do so and so," which I have to do, I want a group here headed by Upham that can take this stuff.

After all, when I came here that's what Tommy Corcoran was doing here for Acheson. I mean they had this group set up here - four or five lawyers making that study

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and advising Acheson whether he should or shouldn't sign these requests for preferred stock. Now, what I want to do is to get ready for it. I want to get ready, so we've got a machine all oiled, all greased. And maybe it can wait until it comes, but I want the group ready.

Now, what I'm saying is, how much do you want in that?

Taylor: Well, you know, we've already been doing that for ....

H.M.Jr: I know.

Taylor: ... for quite a while.

H.M.Jr: One a month. One a week.

Taylor: Whatever it might be.

H.M.Jr: Well, it's insignificant. This is something that's going to have to go awful fast.

Now do you get the problem?

Taylor: Yes, I get the problem all right; but you've got to get this fellow out there to ask for capital. Unless you can get him to ask for capital ....

H.M.Jr: That's something else.

Taylor: ... you don't get anywhere.

H.M.Jr: That's something else. But in the meantime I want a group here which we haven't got now - there is no such group - who, when this stuff comes over from Jesse, can take it intelligently and quickly and analyze it and say "Yes" or "No." That's the immediate problem. But - I mean the bank thing was a thing that was dead; I can wait until tomorrow. Plenty of time to wait until tomorrow. Now ....

Oliphant: I'd like to ....

Taylor: I still don't get it.

H.M.Jr: What don't you get?

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Oliphant: Maybe this would clear it up.

H.M.Jr: What don't you ... - go ahead.

Oliphant: I'd like when Upham makes a request for information, that he make that request - that you make that request on the basis of your interest as Secretary of the Treasury and also on the basis of his being the secretary of this joint group considering legislation; because the President, and you for the President, have very broad power in connection with informing yourself for purposes of legislation.

H.M.Jr: Well, I don't want to do anything between now and tomorrow morning unless something unforeseen happens.

But I don't see how I can make it any clearer, Wayne, than I have.

Taylor: I'm just not quite clear what the problem is.

H.M.Jr: Well now, Wayne - what do you think the problem is?

Taylor: Well, I think we've got - apparently there is a situation in the Comptroller's office and there is a situation having to do with the Bank of America, Trans-America, and so on; I mean I gather that they are interrelated. But then, this mechanism - why, that's very easy to set up. You just say, "O.K., well, if any bank things come over here, this will be a committee to advise you."

H.M.Jr: Yes.

Taylor: Now, we can do that in eight seconds, that part of it.

H.M.Jr: Well, I still don't see what you question. I'll go through it again.

The question, as I put it, is this. The big problem is this. Supposing there is something wrong in the Comptroller's office. Right now it's under you.

Taylor: Uh-huh.

H.M.Jr: Do you want to take that responsibility?

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Taylor: Sure.

H.M.Jr: For what's happened since you've been here?

Taylor: No. That's part of my job, but I ....

H.M.Jr: I mean the point is, it would be unfair to say to you - wouldn't it? I think I'd consider it unfair. Now, what I'm trying to do is set up a committee so that whatever the responsibility of this office towards that is, that we can fulfill that, which we haven't up till now.

Taylor: I think that's that; that's fine.

H.M.Jr: Yes. Now, when we've got that, then we find out, if there is anything wrong, what we're going to do about it; and I want a group to work with me on that.

Taylor: Well, I've got it. That's that same - either one will be the same group. That's the point that I'm making. And if a request comes over from the R.F.C. for capital stock, you want that the same group that will be working on this.

H.M.Jr: Yes.

Taylor: Well, that's the point that I was ....

H.M.Jr: Well, the whole - anything that has to do with the banking situation will be one group.

Oliphant: And problems on this holding company legislation would also be handled ....

H.M.Jr: Yes.

Taylor: And the same thing would be so about this question of examinations, where it ought to be and so on. I think there's no point - there's no reason for compartmenting them.

H.M.Jr: Well, that's in the future. I don't know - I mean because that has Viner and Riefler on it, and I don't want them in on this, see? That is more of a study group. This has got to be an action group. They can be off on the side.

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Taylor: All right.

H.M.Jr: I don't want them in on this, because it's - I mean they can take the stuff and take it home and study it. This thing - I want somebody that I can get on the phone 24 hours a day on this thing.

Taylor: I got it.

H.M.Jr: All right?

Taylor: No, no, I didn't - I wanted to see whether it was going to be all one group that was going to handle it.

H.M.Jr: That's just what Oliphant asked - Are we going to bring the Comptroller really under the Treasury? All of that is something which can wait.

Taylor: Well, everything except this long-range stuff is in that one group.

H.M.Jr: That's right.

Taylor: O.K.

H.M.Jr: But I mean we haven't had any such group. I mean it's one thing to handle preferred stock of Elizabethtown Bank or something like that, fuss around with it for three to six months; but this is something which might, say, break at ten o'clock tonight. What are we going to do about such and such a bank? I don't want to say, "Well, whose responsibility is it? What is my responsibility? What can I tell Gus Folger? What can't I tell Gus Folger? What can I tell Mr. Crowley?" See?

I mean, in other words, I'm looking for trouble. Now, I hope to heavens there won't be any. If there is any, I want a smooth, well-oiled machine that will work and that the fellows know - just the way you don't know today, if I ask you, "How do National Banks handle profits on securities, and do they write them up or write them down?" You haven't got it at your fingertips. I want this group to be ready to answer those questions. I mean the Comptroller says we can't

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stop a bank from paying a dividend. Well, can we or can't we? And that kind of stuff. In other words, we've got to learn something about running banks.

Oliphant: This may throw some light on it. If, for instance, there is something crooked in the Comptroller's office and that were based on a phony legal practice, our whole practice has been - and the record is perfectly clear - that we do not take responsibility.

H.M.Jr: That's right.

Oliphant: We have been very careful in every situation that we do not take responsibility.

H.M.Jr: Well, that's an important point.

Oliphant: And until this morning there is no .....

H.M.Jr: Well, we're just talking about it in this room, and I'm making no decisions. But I say I want a well-oiled machine knowing what my responsibilities could be if I wanted to assume them.

Oliphant: And use them in a particular situation.

H.M.Jr: Yes, but I - just like the appointments of these men. Incidentally, Mac, there is no record that I ever made an investigation of these fellows.

McR: Of course, they were on his rolls and had been for years.

H.M.Jr: Not on - they were over at the other place. There is no record that you made any - the usual investigation.

McR: There is no investigation by Ireys on those cases.

H.M.Jr: If you don't mind my saying, I think you slipped up a little bit, Mac. And if you will please send for these two gentlemen and tell them if they don't object I want to subject them to the regular investigation.

McR: Well, I'll start the investigation and send for them at the same time. Of course, there is no reason why

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we can't do it.

H.M.Jr: After they're appointed it's rather unusual to investigate the man, and you've got to explain it to them.

McR: I will.

H.M.Jr: It's very nice to know the fellow went to high school, but that doesn't say whether he pays income tax or not. I mean men of that responsibility ought to have a very, very careful investigation. So I say ....

Now I'll go around once more. Anybody? You (Magill) don't figure in this.

Magill: (Nods no)

H.M.Jr: And what a cheerful smile.

Magill: (Winks)

H.M.Jr: All right. Bell, at three o'clock - I kind of got my neck out at Cabinet on Dr. Alexander and his troubles, so will you listen?

Bell: I'll be here.

H.M.Jr: You'll listen? All right. Wallace made some rather unfair remarks and I got a little angry. How could we know over here what their problems were? We seem to be able, you and I, to work out something to satisfy Hopkins; but, talking for myself, if people were starving, I couldn't know it if Wallace didn't say anything about it. I said that they seemed to be willing to take the fruit jars away from the people that had the fruit in them.

All right, thank you.



TREASURY DEPARTMENT  
COMPTROLLER OF THE CURRENCY  
WASHINGTON

Recd 430 pm  
Jan 31

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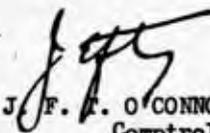
ADDRESS REPLY TO  
COMPTROLLER OF THE CURRENCY"

January 31, 1938

MEMORANDUM TO MR. MORGENTHAU:

Mr. A. P. Giannini had a conference Saturday afternoon at 2:30 with Chairman Crowley, and Mr. Giannini reported after the conference that the Chairman told him he would grant his application for branches of State banks as requested.

This is merely to complete my memorandum to you of Saturday.

  
J. F. O'CONNOR  
Comptroller

January 31, 1938.

MEMORANDUM FOR THE FILES

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5. Paganucci is the owner of a commission business called the Half Moon Fruit Company. In 1933 both Paganucci and the company were indebted to the Bank of America. The loans apparently were insufficiently secured and Transamerica General Holding Company, a Transamerica subsidiary which had also advanced money to Paganucci and his company, agreed to subordinate its loans and the collateral therefor to the loans held by the bank.

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Return to Room 285

TA Corp- SEC report.

Troop  
Judy  
Lane

Asst. Pres. Distributors an affiliate of TA  
wholly owned.

Gossip in Frisco about this Co-

Associated Dealers

AAD entered into deals with dealers  
for sale of TA stock.

Brokers got add. sum for b.o.d.a  
placement

Activities stopped last spring by SEC  
on gd. stock must be registered. (Mar/Apr)

TA announced after break in stock (June)

that TA wd buy for treasury TA  
stock at advantageous prices.

TA announced distribution of 1st Am stock  
to its stockholders & arrange TA  
stock.

Raised many inquiries

SEC then had investigation  
and found no illegality

\* In Sept. HR Baker, broker, asked whether  
they cd. sell for A.O. Stewart 29000000  
shares new TA stock on today  
placement on counter. Stewart indebted to  
B.H.M. for several million to buy  
Tosut stock land bk. Stock Control

SEC want to see Stewart. He said he had  
owned TA stock for a long time & was  
not being pressed for his loans - Didn't  
want to sell on exchange not to de-  
press TA stock - SEC approved &  
stock sale initiated.

SEC warned Baker to inform them of  
other such deals - About a week ago  
Baker told SEC Paganucci wanted  
him to sell about 19 thousand of 30000 block

SEC investigated - Half moon fruit Co, P's Co. both indebted to Bk of America in '33 but were insufficiently collateralized. TA General Holding Co. also had collateral for their loans which P subordinated.

TAGH Corp financed purchase for P. of 10,000 ss. of TA stock.

Cook, officer of Bk of America, turned down further loan P asked for about a yr. ago. (\$10,000) <sup>for his commission business.</sup> but TA Service Co placed orders with brokerage firms for purchase by P of TA stock. 14,000 ss. financed entirely by TA Service Co. His other loans were then under water \$700,000 loans \$1,000,000 under water

Combined loans -

Bk loan is solvent but Bk. can lose thru its holdings in TA

Heblitt & Cravini have seen  
SEC - also Scampini, another atty-  
all to get SEC to permit P's stock  
to be sold - Evident it is not P  
who alone is anxious to get  
stock sold.

About \$11 million of present market  
value of TA stock is pledged with  
Bk. of Am. as collateral.

PUBLISHED WEEKLY

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138 MONTGOMERY STREET

July 27, 1937

## TRANSAMERICA CORPORATION

*Because of the widespread interest in recent developments in the affairs of the corporation and the apparent difficulty in determining a reasonable appraisal value for the shares, this analysis of Transamerica Corporation is presented.*

The announced intention of Transamerica Corporation to distribute part of its Bank of America holdings to Transamerica stockholders, to reduce by one-half the number of shares of Transamerica stock outstanding and to change carrying value of its own stock on its books from \$1 to \$2 per share appears to be a constructive move.

Three primary questions arising from the proposed plan are:

1. What does the capital change accomplish?
2. What effect will distribution of the Bank of America, N. T. & S. A. shares have upon the corporation's earnings and assets?
3. What appears to be a reasonable value for the new Transamerica shares?

A careful study of the considerations involved leads to satisfying answers to these questions and the following discussion is designed to assist the individual holder in determining future possibilities of the corporation.

## PURPOSE OF THE CAPITAL CHANGE

The capital change of Transamerica Corporation will simplify its branch banking program and substantially reduce stock transfer charges.

## BRANCH BANKING PROGRAM:

The new plan paves the way for the Giannini management to accelerate the expansion of its branch banking program in states where branch banking is already permitted and across state lines within Federal Reserve Districts, should branch banking by such districts become legal as hoped for.

At present the Transamerica group effectively covers California, Oregon and Nevada; Arizona has been entered recently; expansion is under way in Washington, while Utah and Idaho so far have been left undeveloped. To illustrate the coverage of the Twelfth Federal Reserve District, Transamerica controlled banks, as of the beginning of this year, held nearly \$1,620,000,000 of assets and something more than \$1,424,000,000 of deposits, representing almost a third of such totals of all banks in the district. These deposits and assets are represented by 461 branch banks in California, 42 in Oregon, and 9 in Nevada.

## PART TO BE PLAYED BY THE BANK:

The distribution of Bank of America, N. T. & S. A., stock and the adjustment in Transamerica shares provides a step in the internal simplification which should eventually take Transamerica Corporation out of the bank holding and management field and divorces it and its subsidiaries from their affiliate status with the banking unit. Should branch banking by Federal Reserve Districts be legalized, this change would make possible the ambitions of the Giannini organization. The management could then consolidate the banking units into a single institution with a representative name covering the Twelfth Federal Reserve District, operating as a unified branch banking institution throughout this District's seven states.

## TRANSAMERICA'S PART:

The corporation's part in this program envisioned by the Giannini management is to facilitate the expansion of branch banking throughout the areas in which it is considered desirable. Its function is somewhat that of an advance agent—to build and prepare the way for the branch banking movement of the group.

## SAVINGS IN TAXES:

The present Federal transfer tax is \$4 per 100 shares of Transamerica stock. A stock having no par value is taxed on the same basis as one having a par value of \$100. By changing the par value from no par to \$2 per share, the transfer tax on 50 new shares of stock received for 100 old shares will total only \$2 or 1/100th of the amount previously charged.

## EFFECT ON TRANSAMERICA OF BANK STOCK DISTRIBUTION

Distribution of 58% of Transamerica's holding of Bank of America, N. T. & S. A., stock, after the 2-for-1 split, would call for about 2,312,000 shares, which would leave the corporation's holding approximately 1,674,000 shares of the new stock. As of Dec. 31, 1936, the 99.65% of the 4,000,000 new shares were carried on the books of the corporation at \$103,928,254. The new stock is being traded on the over-the-counter market at around 57 bid and 59 asked on a when-issued basis, with principal confirmations being made at 59 retail. The approximate 1,674,000 shares to be retained by Transamerica will, at \$59.00 a share, have a total market value of \$98,766,000. This is within about \$5,162,000 of the figure at which Transamerica has carried its holding in the bank stock since Dec. 31, 1931, representing the net asset value computed by the management at that time. Since the corporation owned all but 0.35% of the bank's capital stock, the market value could not be used as a basis for carrying value.

With the distribution of 50% of the corporation's holding, the bank shares should have a stable market and the corporation will be justified in computing the carrying value at a figure based on the actual market price of the stock. Consequently, the remaining investment in Bank of America, N. T. & S. A., stock will be carried on the books of the corporation at value to the same figure at which the 99.65% investment was previously carried.

#### PRICE-EARNINGS RATIO OF BANK STOCK:

American banking institutions

The present market quotations, on a when-issued basis, for new Bank of America, N. T. & S. A., shares is approximately 15 times 1936 earnings, after estimated adjustments. This ratio appears conservative in relation to prices of stocks of other large

#### CARRYING VALUE OF STOCK UNCHANGED:

per share for one new \$2 par share,

The capital stock of Transamerica Corp., amounting to 23,170,000 shares, though without par value, was carried on the company books at \$1.00 per share. By changing the par value of the stock to \$2.00 per share, and by exchanging 2 old

It is estimated that, had the proposed change been in effect over a similar period in 1936, it would have reduced the net profit for Transamerica and all subsidiaries to about \$12,286,201, or the equivalent of \$1.06 a share, as adjusted to 11,585,000 shares of new \$2 par value stock, compared to \$25,016,201, or \$1.00 a share as reported on the 23,181,569 no par value shares.

Discontinuance of the practice of including the Bank of America, N. T. & S. A., net profits not consolidated in excess of dividends paid does not mean that such earnings are not to accrue to the benefit of holders of the bank stock. It merely means that Transamerica stockholders retaining their Bank of America shares will have a direct 50% and indirect 41.65% interest in such earnings instead of the indirect 99.65% interest as formerly.

### AN APPRAISAL OF THE NEW TRANSAMERICA SHARES

On the basis of a reasonable appraisal of Transamerica's remaining assets, the new stock of the corporation has an indicated value of around \$16.00 per share. Currently quoted on a when-issued basis of around 15½ to 16½, the stock appears undervalued. Stock of this general type usually sells on a higher price-earnings ratio.

As already indicated, the carrying value of the corporation's holdings of Bank of America, N. T. & S. A., stock will be in the neighborhood of \$99,766,000, or approximately \$6.53 a share on the 11,585,000 Transamerica shares to be outstanding. While this still will form the principal single item in the corporation's portfolio, many other assets are carried at figures practically identical with those shown on Dec. 31, 1932. Principal among these are the following:

#### CALIFORNIA LANDS, INCORPORATED:

This company, owning approximately 500,000 acres of improved farm and range lands, mainly in California, was carried on Dec. 31, 1936, at \$13,831,705 compared with \$13,827,207 on Dec. 31, 1932, although the aggregate of acreage held is approximately the same on both dates. The 1936 report states that the farm income for the year was \$2,552,925, the largest from its operated properties for any year in its history, and the crop situation for 1937 is even more promising. The corporation operates in every important agricultural community of California and is a large grower of peaches, prunes, grapes, potatoes, barley and hay.

Some of the company's acreage has excellent oil, gas and other mineral possibilities with 726 acres already proven on which are located completed or producing oil and gas wells. The company recently announced plans for a development program under which aggressive exploration of the holdings will be made. An intensive geological and geophysical survey will commence immediately, to be followed by drilling in the more likely locations. Leases also have been made with established oil companies requiring the progressive development of 11,000 acres in 1937 and an additional area in succeeding years. These leases require the development of a well on each 10 or 20 acre tract, provided oil is discovered in the first well. Among these holdings are properties in the Kern County Old River Field, Santa Maria, Mountain View, Tracy gas field and in practically every section of the state that holds oil and gas possibilities.

#### CAPITAL COMPANY:

This company owns and operates office buildings, apartments, hotels, residential property and high-class retail store properties and manages all the banking premises of Bank of America, N. T. & S. A. The December 31, 1936, carrying value was \$17,537,932, which compares with \$17,262,000 on December 31, 1932. It is believed most properties are carried at less than current appraisals would justify.

#### MARKETABLE SECURITIES:

This item was carried on the balance sheet of Transamerica Corporation on December 31, 1936, at \$34,660,848 and had an indicated market value of \$42,339,562 on that date. Included was 610,256 shares of National City Bank of New York, representing about a 10% interest in that institution, 23,088 shares of General Foods Corporation, 41,969 shares of Union Oil Co. of California and 22,819 shares of Fireman's Fund Insurance Company. The portfolio also included investments in several banks on the Pacific Coast and in several Eastern banks. Bancamerica-Blair Corp. stock remaining after the stock dividend distribution to Transamerica stockholders (463,095 shares distributed January 30, 1937) totalled 206,052 shares. As the corporation uses the marketable portfolio in acquiring additional interests in banking and affiliated companies rather than as an operating security trading account, there undoubtedly have been changes since the first of the year, but it is believed there is no gross reduction, if any, in the market value of securities carried.

#### PACIFIC NATIONAL FIRE INSURANCE CO.:

Transamerica Corporation owns the entire stock of this company. Indicative of the conservative valuation placed on this holding, which has been carried on the books of the corporation since Dec. 31, 1931, at \$2,268,799, the liquidating value on Dec. 31, 1936, was equivalent to \$78.20 a share, which would amount to \$3,910,000 on the 50,000 shares outstanding, exclusive of unappropriated reserves. This liquidating value exceeds the carrying value by \$1,741,201.

#### OCCIDENTAL LIFE INSURANCE CO.:

Occidental is the second largest of California life insurance companies in point of insurance in force. Since Dec. 31, 1931, it has been carried on the books of the corporation at \$1,137,600. An appraisal based on \$5 per thousand of group insurance in force and \$12.50 per thousand of ordinary life insurance in force on Dec. 31, 1936, plus capital, surplus and contingency reserves would be \$6,922,018, or \$5,794,418 more than its carrying value.

**BANK OF AMERICA, (CALIFORNIA):** The 98.99% ownership of this bank was carried on Transamerica's books on Dec. 31, 1936, at \$3,878,696. Earnings in 1936 were \$877,171. Based on an appraisal of 13 times 1936 earnings, after estimated reserves for depreciation and amortization, (the same at which Bank of America, N. T. & S. A., shares are currently selling [w.l.]), this interest would be appraised at \$11,300,000.

**THE FIRST NATIONAL BANK OF PORTLAND:** This bank, 41.53% owned, exclusive of 42.51% held by subsidiaries not consolidated, was carried at \$2,095,885. Surplus, undivided profits and reserves increased \$1,378,000 during 1936, indicating earnings for the year of approximately that amount. A reasonable appraisal of Transamerica's interest, based on the price-earnings ratio stated above would be \$7,400,000.

**FIRST NATIONAL BANK IN RENO:** Owned 99% by Transamerica, this bank has 8 branches in Nevada and was carried at only \$695,500 on the books of the corporation on Dec. 31, 1936. Based on estimated adjusted earnings for 1936 of around \$267,000, a conservative appraisal (13 times earnings) would place the value of this holding at \$3,400,000.

**THE FIRST NATIONAL CORP. OF PORTLAND:** Transamerica carries 59,567 shares of Class A stock and 13,147 shares of Class B stock in this corporation at \$1,163,055. The current market value of Class A holding alone is \$1,701,381 so that to carry this holding at the indicated market value of the Class A stock cannot be considered unreasonable.

**GENERAL METALS CORPORATION:** This investment, 50.70% controlled, was carried on the corporation's books on Dec. 31, 1936, at \$269,214 compared with the current market value of approximately \$1,410,000.

**SUMMARIZED APPRAISAL:** It may be assumed that other assets, not detailed above, are carried at conservative valuations on the corporation's books. The investment in Banca d'America e d'Italia (Italy), for example, was carried on Dec. 31, 1936, at \$9,982,180, while its book value was in excess of \$10,000,000. In the summarized appraisal below, however, all stated assets on which present value is not readily computable are stated at the Dec. 31, 1936, carrying value.

**SUMMARIZED APPRAISAL OF TRANSAMERICA CORPORATION**

**INVESTMENTS IN CAPITAL STOCK OF:**

	Per Cent Control	Appraisal Value	13 appraisal Value per new T. A. shares
Bank of America, N. T. & S. A.	42.00	+ \$ 98,766,000	\$ 8.53
Bank of America (California)	98.99	= 11,300,000	0.99
Banca d'America e d'Italia (Italy)	89.60	= 8,982,180	0.78
First National Bank in Reno	99.00	= 3,400,000	0.29
First National Bank of Portland	*41.53	= 7,400,000	0.64
First National Corp. of Portland	73.90	= 1,701,000	0.15
Calif. Joint Stock Land Bank of S. F.	100.00	= 1,418,674	0.12
Country Banks	Various	= 616,782	0.05
Capital Company	100.00	= 17,537,932	1.51
California Lands, Incorporated	100.00	= 13,831,705	1.19
Bankamerica Agricultural Credit Corp.	100.00	= 1,088,862	0.09
Bankamerica Company	100.00	= 600,000	0.05
Pacific National Fire Insurance Co.	100.00	= 3,910,000	0.34
Occidental Life Insurance Company	100.00	= 6,922,018	0.59
General Metals Corporation	50.70	= 1,410,000	0.12
Miscellaneous	100.00	= 439,657	0.04
<b>Total Appraisal Value</b>		<b>\$179,444,810</b>	<b>\$15.40</b>
Cash in Bank and on Hand		2,306,129	} 4.51
Marketable Securities (Value 12/31/36)		42,330,562	
Notes, Contracts and Accounts Receivable less Reserves		4,165,062	
Officers, Employees Notes and Accounts Receivable less Reserves		1,129,488	
Owing from Subsidiaries not Consolidated		2,279,533	
Other Assets		5,225	
Goodwill, Going Concern and Control Value		1	
<b>Total</b>		<b>\$231,569,810</b>	<b>\$19.99</b>

**LESS:**

Accounts Payable	\$ 1,150,756	
Owing to Subsidiaries not Consolidated	6,362,072	
Reserve for Liabilities and Possible Loss Under Outstanding Intercompany Contracts	9,302,302	
Reserve for Depreciation of Assets of Subsidiaries not Cons.	12,248,636	
Reserve for Taxes and Contingencies	7,823,170	\$ 36,887,016
<b>NET TOTAL APPRAISAL VALUE</b>		<b>\$191,126,776</b>

1.-Based on 11,300,000 shares new \$2.00 per value stock.  
 2.-Estimated. Other items at Dec. 31, 1936, carrying value.  
 3.-Exclusive of 42.51% held by subsidiaries not consolidated.

## DIVIDENDS PAID

1934	1935	1936	1937
\$5,902,715	\$6,404,002	\$11,576,806	\$15,751,207

1—On January 30, 1937, a regular semi-annual cash dividend totaling \$4,634,990 was paid and, in addition, an extra dividend payable in Transamerica Rate Corp. stock was distributed, having a market value of \$6,325,000, which makes a total of \$9,960,000. This amount was charged against surplus earned since Jan. 1, 1935. An additional cash dividend of \$0.35 a share will be paid July 31 to stock-of-record, July 15. This is equivalent to a rate of \$1 per annum on the new shares, after present shares of Transamerica are reclassified, but without giving effect to proposed distribution of stock of America stock.

In view of the statement by President John M. Grant on June 17, 1937, that "the aggregate of the dividends that will be received by Transamerica Corporation stockholders, if they retain their Bank of America shares, will not be less than they received during the year 1936 on their Transamerica holdings," it may reasonably be assumed that a liberal dividend policy will be maintained.

**INTANGIBLE ASSETS:** In determining the worth of an established corporate enterprise, the most important hidden asset such an enterprise can have is that of continuing, far-sighted and aggressive management. *Transamerica carries goodwill, going concern and control value at \$1.00. It would be difficult to duplicate an institution such as Transamerica Corporation, which took more than thirty years of development, involving expenditures of considerable money, to become the proven piece of machinery it is today. The background of experiment and development has given Transamerica's branch banking units leadership that would require years for other large banking institutions to match, while, in the meantime, Transamerica would have again outdistanced its competitors.*

*The banking units of the corporation are well organized throughout its territory. They are well and fully equipped and have the advantage of a vast experience. Approximately 10,000 young men and women from California and other sections of the Pacific Coast have been trained in their branch banking methods. No aggregation of capital, without such a personnel, would be in a position to offer serious competition.*

**GIANNINI BANKING SERVICE:** A basic Transamerica banking unit principle has been in vogue for all classes of borrowers. In this respect, it is worthwhile noting that thirty states permit finance companies to charge 3% per month and more in serving the small borrower. The Giannini management has contended that, to a large extent, it is the small depositor's money which is being loaned, since the banks, in turn, loan these deposits to finance companies to be reloaned by them at high rates of interest. Transamerica Corporation banks recognized this situation years ago and, as soon as it was practicable, arranged to meet the small borrower's needs.

While A. P. Giannini was pioneering and building his branch banking system, he believed he was providing the machinery to ultimately serve the average man. The Transamerica philosophy has been that, to reach the latter field of credit merchandising, the physical plant peculiar to branch banking is necessary; that banks cannot maintain what is, in effect, a large credit store in the financial district of a city and expect to serve the average man in other sections; and that branch banking is a form of banking which can provide the kind of service the public is beginning to demand.

Branch banking provides the convenience of large city banks to communities even too small to support individual banks. It makes possible the accumulation of numerous small deposits into funds available to satisfy seasonal demands in different parts of the system. On the Pacific Coast, agricultural crops are being harvested every month of the year in widely separated localities. Industrial production has a seasonal demand variation. Similarly, construction projects too large for small unit banks to sponsor are made possible by branch banking accumulations of deposits over extended areas.

**MARKET POSITION:** *The capital stock of Transamerica Corporation appears reasonably priced at current quotations and in our opinion, both its near and longer term outlook is favorable.*

40 WALL STREET  
NEW YORK

## Howell, Douglass & Co.



MEMBERS OF NEW YORK, CHICAGO, SAN FRANCISCO  
STOCK EXCHANGES AND SAN FRANCISCO CURE EXCHANGE  
317 MONTGOMERY STREET  
SAN FRANCISCO

281 BANCHE STREET  
PALO ALTO, CALIF.

227 COLUMBIA AVENUE  
TELEPHONE DOUGLAS 5121

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C O P Y

Jan. 31, 1938

Secretary Morgenthau

Mr. Opper

Chester Lane of the Securities and Exchange Commission just called me. He said they had a meeting this afternoon with reference to the matter that was discussed with you last Saturday. The discussion took place with Messrs. Neblitt, his partner Warner, Baker and Scampini. No conclusions were reached and they are to meet again tomorrow, although the Commission's representatives took the position on the facts as they knew them, that they felt they could not authorize the sale without registration.

(Initialed) C. V. O

cc to Mr. Oliphant

Return to Room 235

February 1, 1938

Mr. Eccles, Mr. Ransom, Mr. Taylor and Mr. Upham had lunch with the Secretary.

There was some discussion of the differing treatment of securities appreciation and depreciation in banks by the Comptroller of the Currency, the Federal Reserve Board and the FDIC. Mr. Eccles remarked that it was not alone in that field, that there were differences, and Mr. Ransom added that it was impossible to get them to agree on a uniform call report form.

Mr. Ransom stated that a part of the difficulty arose from the suspicion with which the Comptroller's Office and the FDIC regarded each other and he related incidents beginning with his arrival in Washington as a member of the Federal Reserve Board to indicate the difficulties of securing common action or any great measure of cooperation. He expressed with considerable vigor the view that the Secretary of the Treasury has an unusual and unique opportunity to do something effective to bring about a better coordination of banking agencies and a strengthened banking system. He feels that that is of fundamental importance and should be done at once.

- 2 -

Mr. Morgenthau told them that whereas he had been informed by Mr. O'Connor that Mr. Giannini had reported that Chairman Crowley had agreed to grant Giannini's application for branches of state banks as requested, Mr. Crowley had told Mr. Upham that he had definitely refused to grant Mr. Giannini's request.

There was some discussion of the meeting of the Open Market Committee on next Thursday and Mr. Morgenthau indicated that it was merely to discuss the situation with respect to the March 15th financing, and that the last time he looked at it it had appeared as if all that would be necessary would be \$200,000,000 of bills into June and a rolling over of maturing notes.

Upm

Return to Room 285

Feb. 1, 1938

**Secretary Hargraves****Mr. Cpper**

Chester Lane of the SEC called me again this afternoon about the matter discussed with you last Saturday. He says that the Commission has now taken the position that the Pagannoci stock can not be distributed without registration; and furthermore that the same conclusion applies to any other stock held by the bank or the Transamerica group as collateral where the loans are under water and where an organized effort to distribute over the counter is in contemplation.

Hoblitt came in alone this afternoon and was advised of this conclusion. He is coming in again tomorrow morning to complete the discussion but Lane thinks that nothing further will develop at that time.

The question of a general investigation of Transamerica to see how many "pagannocis" there are is still open, but Lane thinks that the question will be decided by the Commission within a few days. He will continue to keep us advised.

(Initialed) C. V. Q.CVO:111  
Typed 2/1/38

February 3, 1938

For the Secretary:

Randolph Burgess stopped in and we got on the subject of bank holding company legislation for a few moments.

Mr. Burgess is very hopeful that restrictive regulatory legislation can be enacted rather than "death sentence" legislation.

He makes the point that bank capital is very difficult to secure. The ratio of banking capital to banking assets has been steadily declining and is now at a low point. By virtue of reduced capitalization, the volume of loans and the volume of investments available to banks is limited. As business increases, it will be necessary for banks to secure more capital if the ratio of capital to assets is bettered or even maintained. He is reluctant to see anything done which will divert any flow of capital into banks. He thinks it would be difficult for the Marine Midland to sell many of its banks. They have put some \$20 or \$30 million of capital into the banks in their group, diverting this amount from the investment markets. Small, independent banks cannot tap the investment market for capital funds. An

- 2 -

organization like the Marine Midland Corporation can and does do so and has improved the position of banks in the State of New York.

Mr. Burgess makes the further point that as a matter of fact the Marine Midland group, the Northwest Bancorporation and the First Stock Bank Corporation of Minneapolis build up local banking units independent of Wall Street.

Mr. Burgess informs me that when Giannini attempted to enter New York (as is indicated in the SEC report), the Federal Reserve Bank would not let the Giannini interests retain their stock in Bank of America, N.A. They refused to give the bank trust powers unless the Giannini interests disposed of all their shares. Later, when Giannini was reacquiring shares of Bank of America, N.A., the Federal Reserve Bank protested this action as a violation of the agreement previously entered into, and the New York representative of Giannini resigned from Transamerica.

Mr. Burgess said he would like to see some kind of action which would get at the Pacific Coast situation without penalizing groups which as a matter of fact have improved the banking situation.

- 3 -

Mr. Burgess said that on the face of things he was impressed with the plausibility of my theory—since Trans-america owns more than 50 per cent of the stock of the First National Bank of Portland and banks in Washington, Nevada and Arizona that they come within the Federal Reserve definition of "holding company affiliate" (regardless of their distribution of the stock of Bank of America, N.T. & S.A. down below the 50 per cent mark), and accordingly could be supervised and regulated and examined and inspected by courageous and vigorous action on the part of the Federal Reserve Board. I shall try to find out from the Federal Reserve people why this theory does not hold water, if it does not.

Upm

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE FEB 7 1938

to Secretary Morgenthau  
from Herman Oliphant

*Information*

I have examined the communication of January 28, sent you by the Comptroller of the Currency, and referring to the developments at the meeting held on that day. I observe what the Comptroller says about Viner's access to material which was not submitted to the Board of Directors of FDIC, but it should be pointed out that Viner is a regular and sworn employee of the Treasury Department and is working with you on, among other things, various aspects of the banking problem. The paper to which the Comptroller refers came to the Treasury in connection with your duties as Secretary of the Treasury and as Chairman of the Interdepartmental Committee on Lending Agencies, along with other material from the Federal Reserve Board, the Reconstruction Finance Corporation, and the Comptroller's office, in preparation for the meeting of January 28, and specifically through the medium of Upham, another employee of the Treasury and Secretary of that Committee. It goes without saying that the Secretary of the Treasury must, at all times, have access to material legally available to the Office of the Comptroller of the Currency or to any other part of the Treasury.

*Herman Oliphant*



OFFICE OF THE CHAIRMAN

FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON

February 16, 1938

My dear Mr. Secretary:

There is transmitted herewith a copy of letter addressed to the Central Bank, Oakland, California, having reference to its application for the establishment of three branches.

The Central Bank is a part of the Transamerica Corporation.

Sincerely yours,

Chairman.

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

REED E. SMITH

FEBRUARY 16, 1938

February  
16th  
1938

Central Bank,  
Oakland, California.

Attention: Mr. D. W. Henderson,  
Vice President and Cashier

Gentlemen:

Reference is made to your application to establish branches in Alvarado, Niles, and Irvington, California, to succeed The Bank of Alameda County, Alvarado, California, a non-member insured bank, and its branches at Niles and Irvington.

We are informed that, in addition to these three proposed new branches, your bank contemplates further application for permission to establish approximately ten additional branches. Since the current application is apparently but a part of a general expansion program, this general program, itself, is an important consideration.

Officials of the Administration have recently indicated concern about the status of group banking in the country, and an intention to clarify public policy concerning the groups. Your bank is a member of one of the most important groups. We feel, therefore, that action by us upon your current application should be postponed until public policy on this point has been clarified. When the current uncertainty concerning public policy on this matter has been settled, we shall give consideration to your application as provided in Paragraph (5) of subsection (v) of Section 12B of the Federal Reserve Act.

Very truly yours,

(Signed) Leo T. Crowley

Leo T. Crowley  
Chairman

RECEIVED  
FEB 16 1938  
FEDERAL RESERVE BOARD  
WASHINGTON, D. C.

March 8, 1938

My dear Mr. Chairman:

I have before me your letter of February 16th enclosing a copy of your letter of the same date to the Central Bank, Oakland, California, which you were kind enough to send me voluntarily for my information.

In the letter to the Oakland bank, you state with respect to the bank's application for approval of the establishment of branches in Alvarado, Niles, and Irvington, California, "We feel, therefore, that action by us upon your current application should be postponed until public policy on this point has been clarified. When the current uncertainty concerning public policy on this matter has been settled, we shall give consideration to your application."

I am writing to inquire whether there has been any change in the policy of the corporation on this matter since February 16th.

Sincerely yours,

*H. W. Hargenthorpe, Jr.*

Secretary of the Treasury

Hon. Leo T. Crowley,  
Chairman, Federal Deposit  
Insurance Corporation,  
Washington, D. C.

CBU:pm

*lym*



FEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON

OFFICE OF THE CHAIRMAN

March 9, 1938.

My dear Mr. Secretary:

Your letter of March 8 inquiring whether there has been any change in the policy of the Corporation regarding the approval of the establishment of branches by the Central Bank, Oakland, California, a subsidiary of the Transamerica Corporation in Alvarado, Niles and Irvington, California, was promptly received.

Let me state to you that there has been no change in the policy of this Corporation as set out in my letter to the Central Bank, Oakland, California, a copy of which I sent to you under date of February 16, which policy you quote in your letter of March 8. I am firm in my feeling that neither the Central Bank of Oakland, a non-member State bank, nor the Bank of America, National Trust and Savings Association, a national bank, both subsidiaries of the Transamerica Corporation, should be permitted to establish and operate any further branches. This conviction has been made known to the officials and parties at interest of the Transamerica Corporation.

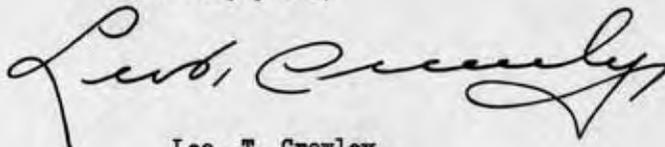
With respect to the application of the Central Bank of Oakland to convert the Bank of Alameda County in Alvarado, California, operating branches at Niles and Irvington, into branches of the main office at Oakland, we found ourselves in this position. There is no bank supervisory agency that has authority to prohibit the Transamerica Corporation from purchasing the control, or all of the stock of any banking institution. In the present instance such a purchase had been effected prior to the application of the Central Bank to this Corporation for its consent to the establishment of branches. The Superintendent of Banks for the State of California approved the establishment of the proposed branches at the time of purchase of the Bank of Alameda County by the Transamerica Corporation. Under these circumstances it was deemed of minor importance whether these institutions continued to operate as independent units or as branches of the Oakland Bank. Accordingly, upon specific representation by the bank that no further expansion will be made by the establishment of additional branches, and upon condition that its capital will be increased to provide not less than a 10% ratio of net capital to combined deposits, namely, a cash augmentation of capital in the minimum amount of \$1,500,000,

- 2 -

consent has been given to the establishment of these branches, after obtaining favorable reactions from the office of the Comptroller of the Currency and the Board of Governors, Federal Reserve System.

There are transmitted herewith for your more complete information copies of the letters from the Central Bank, the office of the Comptroller of the Currency, and the Board of Governors, Federal Reserve System, and of the Corporation's letter to the Central Bank.

Sincerely yours,



Leo. T. Crowley  
Chairman.

The Honorable  
The Secretary of the Treasury  
Washington, D. C.

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OFFICE

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TREASURY DEPARTMENT  
Comptroller of Currency  
Washington

February 9, 1938.

Hon. Leo T. Crowley, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C.

Dear Sir:

Receipt is acknowledged of your letter dated January 31, stating that your Corporation was in receipt of an application from the Central Bank, Oakland, California, to establish branches in Alvarado, Niles and Irvington, California, to succeed the Bank of Alameda County, Alvarado, a Non-Member Insured Bank, and its branches at Niles and Irvington.

In reply it will be stated that although an application made by the Bank of America National Trust and Savings Association to establish a branch in Alvarado recently had the conditional approval of the Comptroller, such approval has lapsed and no reason is known why the application before you should not be approved.

Very truly yours,

(Signed)

MARSHALL R. DIGGS,  
Acting Comptroller.

BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM  
Washington.

February 23, 1938

Mr. Leo T. Crowley, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C.

Dear Mr. Crowley:

This refers to your letter of January 31 advising that the Federal Deposit Insurance Corporation has an application from the Central Bank, Oakland, California, for the establishment of branches at Alvarado, Niles, and Irvington, California, for the purpose of succeeding to the business of the Bank of Alameda County, Alvarado, California, and its branches at Niles and Irvington. You state that before passing upon the application you would appreciate receiving any information in the Board's possession which might have a bearing on the matter, together with any suggestions the Board might have on the subject.

The two banks involved are nonmember banks and we do not have any current information regarding them. The gist of your letter, however, was transmitted to the Federal Reserve Bank of San Francisco, with the request for advice as to whether the proposed establishment of branches would have an adverse effect upon any member banks, and for any other pertinent information regarding the matter. In reply the Federal Reserve bank advised that the proposed conversion of the offices of the Bank of Alameda County into branches of the Central Bank of Oakland would not have an undesirable effect upon existing member banks serving that section and that its only suggestion for consideration of the Federal Deposit Insurance Corporation is that the absorption be predicated upon the provision and maintenance of capital structure appropriate to the bank's liabilities.

From the information in your Corporation's files, which were made available to the Board's Division of Examinations, it appears that the Central Bank, Oakland, and the controlling interests contemplate a further program of expansion and in a telegram dated February 8 the Federal Reserve bank advised that the papers of that date carried the report that the Central Bank intends to take over as a branch the Northern California Bank of Savings at Marysville, which is owned by Transamerica Corporation.

- 2 -

According to the recent report of examination made by your examiners, the Central Bank is somewhat undercapitalized, with an investment in banking house, furniture and fixtures, other real estate, and real estate sold under contract to the bank's affiliates aggregating approximately one and one-half times the bank's capital after allowance for estimated losses and assets classified as doubtful. Also, according to your files, in October 1937 the Bank of America (State) which had changed its name to Central Bank, assumed the liabilities of the Central Bank of Oakland (deposits amounted to approximately \$37,100,000) under a purchase and sale transaction whereby the liabilities assumed were offset by assets acquired. No provision was made for strengthening the capital position of the absorbing bank, but approximately \$6,300,000 of the most liquid assets were left in the Central Bank of Oakland for the retirement of preferred stock and distribution among the common stockholders. The proposed acquisition of the business of the Bank of Alameda County would result in the further dilution of the capital strength of the bank.

Both the Central Bank and the Bank of Alameda County are owned and controlled by the same interests, and the only suggestion which the Board has to offer in response to your request for suggestions regarding the matter is that the absorption of the Bank of Alameda County by the Central Bank and the conversion of the offices of the former bank into branches of the latter be predicated upon the provision of adequate capital.

Very truly yours,

(Signed)

L. P. BETHEA,  
Assistant Secretary.

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YFEDERAL DEPOSIT INSURANCE CORPORATION  
WASHINGTON

March 5, 1938.

Central Bank,  
Oakland, California.

Gentlemen:

Your proposal to establish branches at Alvarado, Niles, Irvington and Marysville, California, has been given careful consideration.

With the distinct understanding that it is not your intention to establish any additional branches, the Federal Deposit Insurance Corporation, by action of its Board of Directors, consents to the establishment and operation by your institution of the branches presently proposed in the towns indicated above conditioned, however, upon a prior cash increase of the capital of your institution in an amount not less than \$1,500,000.

Upon receipt at this office of a certificate indicating compliance with the condition stated, you will be promptly advised of the effective date of the Corporation's consent and you will then be at liberty, so far as our requirements are concerned, to proceed with the establishment of the branches.

Very truly yours,

(Signed)

A. C. Murphy,  
Acting Secretary.

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CENTRAL BANK  
Oakland, California.

February 26, 1938

Honorable Leo T. Crowley, Chairman,  
Federal Deposit Insurance Corporation,  
Washington, D. C.

Dear Mr. Crowley:-

This is in reply to your letters of February sixteenth and February eighteenth regarding our applications for branches at Alvarado, Niles, Irvington and Marysville, California.

You have been informed that we contemplate further application for permission to establish approximately ten branches and comment that the general expansion program of the bank is an important consideration.

We have no set plan or definite ideas in regard to a future expansion program, nor any commitments beyond those presently under discussion with you. These commitments were made after we had the verbal approval of the Superintendent of Banks and on the assumption that the Federal Deposit Insurance Corporation would grant permission to convert the banks into branches in accordance with the present provisions of the law.

We do not understand why the question of policy is raised at this time since we are not advised of any change in the laws relating to bank holding companies, or to branch banking. However, if the pending applications are granted and we are advised that there is a negative policy in your office with respect to further expansion pending the establishing of an administration policy with regard to bank holding companies, we will not undertake any further commitments in the way of expansion without first advising the Corporation of our plans.

We hope, therefore, that you may see your way clear to grant the applications now pending so that our commitments may be fulfilled.

Yours very truly,

(Signed)

D.W. Henderson,  
Vice President & Cashier.

## RE BANK HOLDING COMPANY LEGISLATION

March 10, 1938.  
11:00 a.m.

Present: Mr. Taylor  
Mr. Upham  
Mr. Gaston  
Mr. O'Connor  
Mr. Diggs  
Mr. Oliphant  
Mr. Jones  
Mr. Eccles ✓  
Mr. Ransom ✓  
Mr. Crowley  
Mr. Foley

- H.M.Jr: Well, gentlemen, the reason I asked you to meet with me - there are a number of things here, and the most pressing thing is this. The President asked us to have ready for - all of us to have ready for him before the 20th a message on bank holding companies which would be part of his message on monopolies, and take up one thing at a time; the Glass bill - don't have to necessarily decide on that today, but unless we decide that in connection with the President's message there should be a policy as to legislation, you see ....
- Jones: On this particular thing.
- H.M.Jr: Yes. Because I asked him particularly when Mr. Glass announced that he wouldn't do anything on this thing until April - I said, "Well, does that mean, Mr. President, that we can wait until April?" He said, "No." He said, "I want the message before I go away" - before he goes away on the 20th. And I suppose then that the natural thing he'll say to us as a group ...
- Jones: "What do you suggest on that?"
- H.M.Jr: Yes, because he can't send a message on bank holding unless he has a ....
- Jones: A basis ...
- H.M.Jr: ... a basis of where we want to go.
- I'll just read this; it is very short. Mr. Gaston took everything we had and wrote this and we sent this over to the President, and this is what we have. This is

-2-

what we had before the Glass bill - this was written before the Glass bill was introduced in Congress:

"A development has occurred in our banking system within the last few years that seems to me to hold elements of very serious danger to our economic life. This development is the extension of bank holding companies across state lines.

"It is hardly necessary, I think, to point out to you the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance, and notably so when effective control is maintained without the responsibilities of complete ownership.

"We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

"We don't want those evils repeated in the banking field, and we should take steps now to see that they are not. I am not thinking so much of the present situation as what may result if we permit the trend to continue. It is not a sufficient assurance against the future to say that no great evil has yet resulted from the control of banks by interstate holding companies. The possibilities and even the probabilities of great harm are inherent in the situation.

"Both the Congress and the legislatures of a number of the states have deemed it wise to place limits on branch banking, but no limits have been placed on the holding company system, which accomplishes a similar result without a similar measure of responsibility, and permits, with equivalent capital investment, domination of a much broader field.

"I therefore recommend that the Congress enact at this session legislation which will effectively regulate the control of banks by holding companies."

Now, that was the work of this shop. But we work as a committee. I told that to the President; also told him that, due to pressure of work here, I hadn't been able

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to get my teeth into this bank holding situation, and he understood it. But now he said he definitely wants something before the 20th.

Jones: "I therefore recommend that the Congress enact at this session legislation which will effectively regulate the control of banks by holding companies."

McCles: "Owned by holding companies," that should be.

Jones: I think you probably would need to interpret that a little bit.

H. A. Jr: Well, in view of what has happened - this was written, oh, a week or ten days before Senator Glass introduced his bill, but I think that the question then will be - the President will immediately say, "Well, have we got any legislation to go with this?" because we haven't - because I waited, and then some of you gentlemen went out of town, which suited all right my plans, because I just wasn't able to dig into this thing.

Crowley: I wonder, Mr. Secretary, if I might explain my position on this Glass bill a little bit. Senator Glass talked with me several times, and as you all know, he publicly, before I ever had any conversation with him at all, had stated that he was going to introduce a bill on bank holding companies, which I think he did without conferring with any of this group. He lives at the hotel and he and I spent several evenings and several afternoons discussing the bank holding company situation.

I presume, in a sense, it was unethical for me to work with Senator Glass without the consent of this committee. However, Senator Glass has been a good friend of mine, he asked me for my ideas, and they were purely personal and I felt it was to the advantage of everyone that I give Senator Glass whatever views I had. The result of the thing was that more or less it became a responsibility of putting this thing in form that I assumed for the Senator, and I want everyone to know that.

The original bill that the Senator had called for an out and out death penalty. The Senator later decided that he wanted the death penalty eliminated. The provisions that are in that bill do stop and prohibit any further expansion of bank holding companies. It

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does also further deny the right of bank holding companies to operate any additional - take on any additional branches. It demands that they liquidate their affiliate indebtedness to their member banks within three years, and it also prohibits any loans on their own stock from now on, and they must liquidate their own loans.

(Foley comes in)

In a way - it is an indirect way, there is no question, of creating their death. I think that they would find it would be to their disadvantage over a period of years to operate under this regulation.

I am embarrassed to the extent that the Federal Deposit Insurance is mentioned in the bill. We have never done anything like that before. Carter was willing for that. He of course takes great pleasure in cussing out Marriner every time he can. And I didn't discourage him from including the Federal Deposit Insurance in the bill.

Jones: Did you discourage him from cussing out Marriner?

Crowley: I kind of left that to Carter's own judgment.

Beales: He thinks I can take care of myself.

Crowley: But the ideas, of course, subject to change, are my personal ideas of what I think a holding company bill should cover.

Jones: Your ideas are in that bill?

Crowley: Yes, sir. Maybe they go further than some would go; maybe it doesn't go as far as others.

But I do want to - if there's been any embarrassment to this committee, I want them to know that this is perhaps the first time since I've been in Washington that a bill was put in like this with my help, but I felt rather obligated to help Senator Glass, because he's been a very personal friend of mine. Now, if there's ....

H.S.Jr: Well, it isn't that the committee is so embarrassed, but I think it might be very embarrassing to you. And

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you're always talking about upholding the President's hand and I wouldn't say that this was holding his hand up very high.

Crowley: I think that's holding it up quite high if you analyze the bill.

H.M.Jr: Of course, here's this committee which is supposed to do this job for the President, and what you're telling me isn't any news, because we all know that the thing was prepared over there. And certainly, working as a group, which we are, and for the President, under his direction, and - I can't imagine myself, after having said I'd work with the group - that we'd prepare a bill and slip a bill to Senator Glass.

Crowley: Now wait a minute. There is this much in defense of this thing. Senator Glass said he was not going to introduce this bill until he conferred with you, conferred with the President, and he also said that he was not going to introduce the bill until after the 20th. And then he made up his mind he was going to introduce it at once, because Senator McAdoo had a bill up there demanding hearings on .....

H.M.Jr: I can't - you say it's unethical; I'm not going to argue with you about it. I mean that's what you call it.

Crowley: I think that's true, if - I don't believe that it's a thing that I would be very proud of, but I ....

H.M.Jr: No. I agree with you.

Crowley: But nevertheless I don't think it's treason, because I think Senator Glass - I think any Senator's got a right to ask us our views on any piece of legislation.

H.M.Jr: Well, I just wanted to tell you - I mean talking for myself; I don't know how the others feel - that, to put it mildly - to say that I am shocked is putting it very mildly. But it's done and ...

Crowley: Well, Mr. Secretary, let me say this in my own defense. If this shocks you badly, then you've had some awful bad shocks since you've been in Washington, because I know a lot of legislation, not from your shop, however, that has been inaugurated in the same

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way. Now, one mistake doesn't ...

H.M.Jr: Yes, but every time some other person does that sort of thing - I mean I'm still enough of a believer in human relations and decency, all that sort of thing - if one other person does it, it makes it that much more difficult.

Crowley: Well, I let you know some time ago that Senator Glass had talked to me one day, but that Senator Glass was not going to introduce a bill until he talked to you.

H.M.Jr: Well, it's awful hard to remember the details, but it's - that's that. Now we've got the job of trying to decide ....

Jones: .. what you're going to say to the President.

H.M.Jr: Exactly. And if - in view of the fact that you have - that this bill was written in your shop and expresses ... I mean your personal views - I don't see now you can disassociate your personal views from your views as Chairman of the F.D.I.C. and also your views as member of an interdepartmental committee which has to do with banking legislation. And - I mean, of course, this is none of my concern, but I suppose that when you prepared this bill, you advised the Board of the F.D.I.C. that this was being done.

Crowley: No, I don't think I did.

Jones: Does this bill drawn represent your views of what the bill should be?

Crowley: Yes, sir.

Jones: Well now, how do you (H.M.Jr) feel we should proceed with respect to your report to the President, and what reference, if any, should be made to the Glass bill?

H.M.Jr: Well, I'm thinking out loud. What I think - if I was going to do this, what I think I'd do is start from zero, try to build up what we think is best for the country. After we have done that, without any regard to the Glass bill, after we have done it and we have satisfied ourselves that this is what we think is best for the country, then we could draw up a memorandum and say, "This differs from the Glass bill in the following

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ways." But I mean shooting from the hip ...

Jones: That's what I'm getting at.

H.W.Jr: I'd start from zero. I wouldn't look at the Glass bill at all, and just start ...

Jones: Then see where - then reconcile those things that go along together and call attention to the differences.

H.W.Jr: Yes. Does that make sense to you?

Jones: Yes, and it would be helpful in point of legislation, I think, if we could then all give these suggestions on it, or have the President do it, to Glass and let him - because you can't very well have two bills.

H.W.Jr: No, I don't - you see, what I did, I leaned over backwards in press conferences and with Senator Glass, I took the position that I had no comment to make on the Glass bill one way or the other, and that until this committee came to a decision I couldn't make up my mind. And in fact we hadn't really started working on it. I mean I repeated that over and over again at my press conferences. Here a committee was appointed; we hadn't done the work, we had no report. Until that report was finished, I had no opinion. I told that to the President, told that to Senator Glass. And Senator Glass understands that, and the President understands that. I want you people to. I said it two or three times at press conferences, that until this committee brought in a report, I had nothing to say, had made no recommendations to the President. And so far as I know, nobody else has made any comments and everybody's been waiting.

Jones: Well, how are we to reconcile our views now? How do you want to proceed?

H.W.Jr: I think that there's a hell of a lot of work to be done, and, like all these things, somebody's got to do the work.

Jones: Yes.

H.W.Jr: And ...

Accles: We have done a lot of work. We have analyzed the Glass

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bill and we have prepared alternative suggestions. As you know, the Banking Act of 1933 covers the question of holding companies to some extent, and it gave to the Board certain powers, and under those powers we have for a period of five years accumulated a good deal of experience and a good deal of information; and we are in, I believe, possibly a better position by reason of that responsibility in that we have had to know something about the problem, something about what additional legislation was needed in order to accomplish the objectives as stated in your memorandum here of curbing and controlling them. So that if the committee would like to have the analysis we made of the Glass bill and the alternative suggestions, we'd be very glad to give each member of the committee that information.

H.M.Jr: Well, what I'd like, just feeling my way, in view of this rather unusual situation - I can't do the spade work. I mean I want to be very honest. But what I can do, for the Treasury there is Taylor, there is Upham, and Oliphant, who can work with whoever you people have. Now, I don't know how snowed under you (Jones) are.

Jones: I've got plenty of help over there.

H.M.Jr: Now, if you could - either yourself or somebody - and then kind of ... Well, I mean just as soon as they've got something, we can meet again. And then, I don't know how you're (Eccles) fixed. I mean these men can get right down in the trenches and do this work and they're ready now and we haven't got much time to lose, perfectly frankly. I mean I've got this French thing - cabinet's resigned - and I've got lots of minute-to-minute things, but whenever there is a report I'm ready to sit down.

We've got this draft of this proposed message. I think that before that message goes up, the President's got to have a policy of his administration on bank holding companies. I mean I don't think he can send a message without one. We can go over and say, "Mr. President, this is a majority report of this group. This is what - here's a majority report and here's a minority report, and here's the best we can give you." And meet with him. What?

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O'Connor: Mr. Secretary, at the last meeting, we were reaching a rather important point in holding companies, a distinction between two kinds of holding companies, one that we felt would have little or no effect upon the banking structure, wherever they were in existence, and the other holding company that would have a very serious deflationary effect wherever they were in existence. And had we concluded that to our satisfaction?

H.M.Jr: Well, since the last meeting, Jefty, I don't think anything has been done. I mean perfectly frankly, I haven't done a thing on it since we've met. We have collected the stuff. I'm in Dutch with Cy; he walks around with this stuff under his arm, and every time - I've had about three meetings proposed, and every time something has come up which had to be done at the minute. The reason I asked you people to meet - I thought Marriner was leaving; I know you're (O'Connor) leaving. I wanted to get this thing started so you could say who would do the work while you were gone. And the 20th is getting very close and we have just got to produce.

Incidentally, have you (Oliphant) been able to find out how far along this message on monopoly is?

Oliphant: No. I'll get that afterwards.

H.M.Jr: I mean how near are they to producing? I hope they're not as far along as we are. Give us more time. I mean let's find out how far the crowd that's working on the monopoly message - how near are they to producing something, you see. I mean it'd be our good luck if they were as tardy as I've been.

Oliphant: I think that will be the situation.

H.M.Jr: What?

Oliphant: I think you'll find that's the situation. I'll know in the course of the afternoon.

H.M.Jr: You're (Eccles) going this afternoon?

Eccles: No, I'm going tomorrow, but I ...

H.M.Jr: Well now ...

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Eccles: I - Mr. Ransom is here, familiar with the situation, and Mr. Cagle and Mr. Winfred over there have handled holding companies for five years, so they're very familiar with it.

H.M.Jr: What I said - does that make sense as a way of proceeding, Marriner?

Eccles: Yes, I think it does. In fact that's the only way - practical way it seems to me we can proceed.

Jones: Now, you've got your analysis of the Glass bill?

Eccles: Yes. I've got one copy of that here. I'll get copies of it.

Jones: Is it very extensive?

Eccles: This is all there is to it. Want me to read it?

H.M.Jr: I don't think now.

Jones: He doesn't want to do it that way.

H.M.Jr: No, we'll give you everything we've got. Now, we'll put it - if Jones is going to do it himself, we'll meet over there. If he's going to designate somebody, I suggest that we give you 296, which is a nice big room. We can work down here, see? But I mean if you're going to sit in, they'll naturally meet at your place, but if you're not, personally - they can meet down here in either Taylor's office or 296.

Eccles: I have an alternative here that's ....

Jones: A bill?

Eccles: Well, it isn't in the form of a bill, but it's ...

Jones: It will take the place of the Glass suggestion.

Eccles: Yes.

Jones: That's pretty short. Does that abolish the Federal Reserve Board?

Eccles: Well, not altogether. It might leave a semblance.

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Jones: Well now, what you want to do is to make a definite recommendation to the President as soon as you can.

H.M.Jr: Yes.

Jones: And if we can't get a unanimous agreement, you have to report what you get.

H.M.Jr: That's right.

Jones: Then why don't we - those of us here - those boys that you want to work, and then our fellows and his fellows and his fellows meet, get together, see what we can agree upon, and bring you back our respective views?

H.M.Jr: And in order - let's have the - let's say Tuesday afternoon.

Jones: We'll sit down ....

H.M.Jr: Let's have it, say, Tuesday afternoon at three o'clock.

Jones: Next Tuesday afternoon.

H.M.Jr: Three o'clock.

Jones: And then meet, with these recommendations.

H.M.Jr: Yes. When you going away, Jefty?

O'Connor: Tonight. But we've got a complete analysis of the bill and we can work very rapidly from our office with whatever suggestions we have.

Jones: You got any suggestions and things like that?

O'Connor: Yes.

Jones: Do you already know what your views are?

O'Connor: Yes.

Jones: And you (Eccles) know what your views are?

Eccles: Yes.

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- Ransom: May I ask, Mr. Secretary - I didn't understand what we're going to do at Tuesday, 3 p.m. Is that the first meeting or the final meeting?
- H.M.Jr: Well, it will be the meeting where, between now and Tuesday, we'll try to meld the thing into a report and ....
- Jones: See how near we can get together.
- Ransom: Between now and Tuesday.
- H.M.Jr: Yes, and we'll try our best to get together by Tuesday at three o'clock.
- Eccles: But the committee ought to get together in the interim and work it out together, so when they come for final action it won't be a question of reconciling many differences.
- H.M.Jr: No, no, the committee when they leave here ought to get together and from now until Tuesday - Cy and the rest of them - just sort of stay right on this thing, day and night, and try to grind something out.
- Jones: And come back here with whatever our views are, get together as near as we can.
- H.M.Jr: Talking for the Treasury, we are completely open-minded - completely.
- Jones: I think we can proceed on that.
- H.M.Jr: Completely.
- Jones: You (Diggs) will be available at any time?
- Diggs: (Nods yes)
- Jones: And you (Ransom) will. And Wayne and Upham. We can work at this - what's today, Thursday?
- Eccles: Thursday.
- Jones: I think we might meet Friday, some time tomorrow, or Saturday, whichever is ...

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- Winnon: Might I suggest, Mr. Secretary, if it meets with everyone's approval we might meet this afternoon. If we've got a quick job to do, I'd like to start on it quickly.
- H.A.Jr: Attabo! Man after my own heart. Now - I mean don't let's be too polite with each other. Somebody say where you meet and when?
- Diligent: About three o'clock this afternoon.
- Winnon: Suits me.
- H.A.Jr: Where do you people want to meet?
- Jones: Be convenient to meet at our board room?
- Winnon: Why, certainly.
- Crawley: That's all right. You fellows meet and I'll see what kind of a bill you can draw.
- O'Connor: Mr. Secretary, can I ask for one other thing, to give us now again what you want this committee to do?
- H.A.Jr: What we want is this. The President has requested this committee to produce for him a section of a message on bank holding companies which will be part of his message on monopoly. And it stands to reason that when he sends a message up on bank holding companies he's going to ask, "Well, what policy do you gentlemen recommend that I should take in regard to bank holding companies?" I mean it isn't sufficient just to give him a message. He's naturally saying, "What's the policy? Do you believe that you should freeze them or you should have a death penalty and do away with them, and ...."
- Wooler: "Or permit them to grow?"
- H.A.Jr: ".... or permit them to grow? And what about branch banking; is this part of it or isn't it? Do you want to confine it to the states? And when it comes to the policing, who's going to police it?" In other words, it is only legitimate for him to ask those questions, and I think when I go over there I want to be prepared to say, "Well, Mr. President, the following people have agreed on this, and the others haven't, and they're here to speak for themselves." Is that ....

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- O'Connor: That clears it up a great deal, because from what you have said now you have entirely eliminated any consideration of a bill.
- Jones: You mean the Glass bill.
- O'Connor: Any bill.
- H.M.Jr: No, no, just a policy. A policy.
- O'Connor: That's what I wanted to get straight.
- H.M.Jr: Yes, but ....
- Eccles: You can't adopt a policy without a consideration of a bill.
- H.M.Jr: Well, you've got to start with a policy first, and then build a message on a policy.
- O'Connor: That's right.
- H.M.Jr: Can we agree on a policy, and then on that policy we draft a message which is part of a monopoly message. Now, between now and Tuesday, if I get a chance, I'm going to ask the President if he will give us some hints as to what he has in his mind - I mean as to certain things, because he's had a chance, he's talked to Glass, and if he could give us some hints it would help us. But it's the policy and a message, and it doesn't necessarily mean a bill.
- O'Connor: That's very important, because I think, as I indicated before, there is such a great difference here between certain holding companies that might require entirely different action that we've got to first agree on a policy as to these holding companies and what effect it's going to have on the economic condition of the country. Then after we have agreed on the policy, of course, a bill isn't going to be a very difficult thing to prepare.
- Jones: I believe, Mr. Secretary, that the point we've all got to agree upon is, what do we want to accomplish, and not try to spell it out in detail. You've pretty near got it in your bottom paragraph, in your closing paragraph there. I mean that's where you're going to - he

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doesn't want a long message, he wants a paragraph to go in his message. Then the details will be worked out in the Banking and Currency Committee. Somebody will submit a bill, then you'll have hearings, people will present their ideas. Out of that will come a bill; I mean the final bill.

Eccles: It seems to me, though, that the committee should if possible agree on what kind of a bill they want, and then, as to how that is brought about, whether it is brought about by the committee recommending amendments to the Glass bill or whether it is brought about as a result of possibly getting Senator Glass to substitute for his bill a bill which the committee might favor, is a matter of procedure. But I do think that merely to leave the question of the detail of the final bill up to hearings, you'd get a good deal of confusion unless the committee itself have agreed upon just what kind of ...

H.M.Jr: Well, Marriner, if this committee would agree - Do you want a death penalty, who should have the policing, should it be confined to state lines or districts, and so forth - that whole business - you get half a dozen of those things decided and then the question of throwing that into a bill isn't very difficult. The difficult thing is to decide what is the administration's policy towards bank holding companies. Now, once you get that I wouldn't worry an awful lot about a bill. I mean they can throw it together.

Jones: My guess is that none of us would probably agree entirely on everything. But you put your finger on it when you said the policing. You've got Federal Reserve, got Comptroller's office, you've got F.D.I.C. Each of those agencies is going to be jealous of its various prerogatives. None of them will be willing to say, "Well, Gaston, you take it." I think you might just as well recognize that.

Eccles: Well, I can say that as far as I'm concerned, if the committee feel that some other agency should have it, that then I wouldn't personally have the slightest objection. So far as wanting the power to police the thing is concerned, I have - it makes no difference. The only thing is that if another agency is going to have the power to police it, then we should be completely divorced from the thing and it should be a simple administration of the thing. As it is now, the Glass bill

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comes in and you have two agencies. You have - we are still left with all of the same responsibilities we have under the Banking Act of '33, and the F.D.I.C. has a tremendous lot of duplication. It's a very, very involved procedure when you've got the two agencies, and it should be given entirely to one agency, and whatever agency that goes to is up to the committee; I don't care.

Ransom:

Might I suggest, Mr. Secretary, that as I understand the existing situation, the Board and the Comptroller's office both have some responsibility in the present situation. The bill, as I read it, is in effect a tonsil operation that removes neither tonsil, but adds a third tonsil to the patient's complicated situation. Now, I think that, in principle, is rather bad procedure and I am fully in agreement with Marriner that, wherever the responsibility rests, it should be a clean-cut operation and should rest definitely with some agency of government charged with that responsibility.

H.A.Jr:

Well, I'll underwrite that, because - I wasn't going to mention it, but I think what happened since February 16 on this Oakland Bank thing is a good demonstration that you've got to have it in one place. I mean if you're going to police - I mean then let's make one agency responsible, so that if a bank is going to add branches or isn't going to add branches, or whether they've bought branches, and so forth and so on..... And it just doesn't make sense to me that Mr. Crowley should write a letter on February 16, tell the Oakland Bank that pending the fixing of a national policy he won't approve adding the three branches, and then between that time and this they do approve it.

Crowley:

Well now, wait a minute. Have you read my letter?

H.M.Jr:

Yes.

Crowley:

My letter very definitely sets out there that these three banks were acquired by Trans-America prior to - and you understand we have no one in Washington, no Federal agency has any authority over Trans-America acquiring banks. They acquired these three banks some time ago. We had those banks already insured. We have an understanding with them that they would not open up any

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more branches, not acquire any more banks until this situation is clarified. They had these three banks that we had insured, that we had in the group in one form or another. We have asked them to improve their capital position. It is not anything in which we have taken on an additional liability. We asked the Federal Reserve and the Comptroller both for an opinion on the matter, and I think their letters are all attached there. And I don't think that we have gone back on any policy that we have stood for at all. It isn't anything that ....

- H.M.Jr: Well, I didn't ask - I didn't know anything about this thing, and I have no authority, but when you write me on the 16th and send me a copy of the letter which you wrote to the Central Bank, in which you say this: "Officials of the Administration have recently indicated concern about the status of group banking in the country, and an intention to clarify public policy concerning the groups. Your bank is a member of one of the most important groups. We feel, therefore, that action by us upon your current application should be postponed until public policy on this point has been clarified."
- Crowley: Yes, but, Mr. Secretary, we found after that that they already had acquired these banks.
- H.M.Jr: Then when you wrote this letter it was meaningless.
- Crowley: No, it wasn't meaningless. We still stand behind that proposition.
- H.M.Jr: Oh, Leo, don't try and kid me; it's no use.
- Crowley: Well, if you don't .....
- H.M.Jr: I mean what's the use? Here you write a letter in which you say that pending - "We feel, therefore, that action by us upon your current application should be postponed until public policy on this point has been clarified."
- Crowley: All right, these banks now are not made branches until they comply with the capital rehabilitation.
- H.M.Jr: But I mean you lay out this thing, which I think shows very noble sentiments - and I didn't ask for it, you

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volunteered this letter.

Crowley: And we haven't changed our views a particle in the matter.

H.M.Jr: All you've done is act differently than what you've stated.

Crowley: Well, I don't agree with you on that.

H.M.Jr: Well, that's really - to show you you have, this fellow writes you here, this man of the banks: "We do not understand why the question of policy is raised at this time, since we are not advised of any change in the laws relating to bank holding companies."

Crowley: Well, that's just a legal question - that we didn't have any right to ....

H.M.Jr: In other words, he called your bluff and then you backed down and gave it to him.

Crowley: Well, I don't agree with that.

H.M.Jr: Well, it's what happened, and that's - that's the kind of thing that's going on. And therefore, when Mr. Eccles says that this thing should be in one place, I agree with him. And this has been going on for a couple years now, and possibly between now and Tuesday, when this committee gets together, they may go a little bit further than bank holding companies and decide some more important questions, and this whole question which we all know. I'm not suggesting that, but maybe you'll find it is necessary to decide this whole question of examination and everything else.

But - I mean I didn't ask for this thing and it isn't any of my responsibility, but certainly the Bank of Oakland has got a good laugh on the Administration, and I'm getting pretty fed up with it, as I say. I don't say this to newspapermen, I don't say this to columnists, I don't say it to Republicans, I don't say it to Senators. But I do say it to people who - every one in this room been appointed by the President of the United States. I feel if I feel this way, this is a perfectly proper place to talk this way.

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- Jones: Now, you'd like us to meet and get back something here as near together as we can get back. And the question of the - of who will police it - do you want that to be in the report? That's probably a detail, I think.
- H.M.Jr: Well, I think it's pretty important, Jesse.
- Jones: But I don't think it ought to go in the President's message.
- H.M.Jr: No.
- Jones: That's a detail.
- H.M.Jr: No, just in case he asks us, if he says, "Well, who should police it?" I think we should be ready to say, "Well, Mr. President, some of us think this way and some of us think that way."
- Eccles: It seems to me as far as a message is concerned that naturally all he can put in that, inasmuch as it's going to be a message dealing with the whole question of monopoly and this banking aspect will be more or less an incidental part of the whole message - that all he can say in that is, it seems to me, to state whether or not a death sentence is recommended or whether he feels that under the circumstances the thing should be frozen and then closely regulated.
- Jones: Merriner, have you opposed the death sentence at the time?
- Eccles: I don't think time makes any difference. I'm opposed to a death sentence unless you have an alternative of branch banking. What I say is that when you put a death sentence on a holding company ...
- Jones: Then you want branch banking.
- Eccles: Then you have at the same time to find an alternative. But merely to make a death sentence without having an alternative doesn't make sense.
- Jones: How do you feel about it, Jefty?
- O'Connor: That's the question I raised in the early part of the conference today - that we are confronted with a very

-20-

serious problem with reference to certain holding companies, and with others it doesn't make a bit of difference; you can wipe them out tonight at six o'clock and it won't make any difference. But in the other case of the holding company where they're holding unit banks, and we require those banks to be liquidated at once, or sold in the community, where probably there isn't enough capital to do it, that's a serious question which we've got to give serious consideration to before we get the President out on a limb.

- Eccles: It seems to me all you can do at the present time - outside of one or two situations, there has been a contraction and not an expansion of the holding company picture since 1933, and there has been a strengthening and a consolidation - that what we should do now, in my opinion, is to stop any further expansion and to get powers to regulate the existing set-up and to broaden the definition of holding company so that - because without a broadening of it, then it's impossible to get powers of regulation; 50 percent is meaningless, and you've got to get a different definition. And then if you get that and give powers to regulate, you're certainly going to stop growth, you're going to be able to enforce a satisfactory operation of the existing structure; and then, at such time as it seems possible or practical to get a branch banking development, then simultaneously with that you can provide for the liquidation of the holding company. But to try to go beyond that seems to me to be impractical and inadvisable. That can be done. It isn't complicated to do that, the thing that I have suggested here, and I think that you can make an excellent case along that line.
- H.M.Jr: Well, Jesse, don't you think they'd be ready to meet now, unless there is something else you want to ask about the principles involved.
- Jones: No, I think - that's all right.
- H.M.Jr: I mean I don't want to hurry you.
- Diggs: Three o'clock.
- Oliphant: Three o'clock, your (Jones) board room.

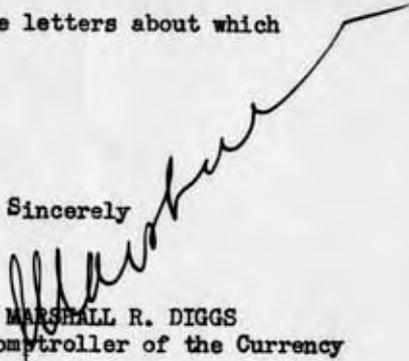


THE COMPTROLLER OF THE CURRENCY  
WASHINGTON  
April 20, 1938

Dear Mr. Upham,

Attached are letters about which  
I spoke with you.

Sincerely



MARSHALL R. DIGGS

Acting Comptroller of the Currency

Mr. Cyril Upham  
Assistant to the Secretary  
Room 289½ - Treasury Building

April 1, 1936

Mr. A. F. Giannini  
Chairman of the Board,  
Bank of America  
San Francisco, California.

Dear Mr. Giannini:

In response to your letter of April 1st regarding the application of the Central Bank of Oakland, California, for branch offices at Alvarado, Niles, Irvington and Marysville, California, in order that we may not embarrass you in this situation we will agree to permit you to proceed with your program of taking over these four banks and making them branches of the Central Bank of Oakland with the understanding that this bank does not acquire any more banks without first getting the permission of this office; further, that the capital readjustment will be discussed with me when I am in California for the bankers convention in May as our analysis of this bank shows its capital ratio to be much below the desired ratio.

Sincerely yours,

Leo T. Crowley (signed)

Chairman

Hon. Leo T. Crowley, Chairman,  
Federal Deposit Insurance Corporation,  
National Press Building,  
Washington, D. C.

Dear Mr. Crowley,

I have been advised of the action of your Board on March 5th, 1938 requiring additional capital in the Central Bank of Oakland, California as a condition to establishing branch offices at Alvarado, Niles, Irvington and Marysville, California.

In view of the fact that negotiations have gone so far with reference to these small unit banks, all of which are already insured by your Corporation, and there is no additional liability therefor created, I would appreciate it if you would advise me that it will be satisfactory to the Corporation to establish these branches, and I will be glad to discuss with you in May, when you come to the California State Bankers Association meeting, the question of additional capital.

California Statutes fix a ratio to capital structure which is more liberal than that suggested by the national banking agencies. It is difficult to discuss this question except in a personal interview.

If the above meets with your approval, would you be good enough to wire me so that negotiations can be completed.

Cordially yours,

---

A. P. Giannini

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 26 1938

TO Secretary of the Treasury  
FROM General Counsel

A field examiner for the National Labor Relations Board recently wrote to the Chief National Bank Examiner of the 12th Federal Reserve District at San Francisco, California, requesting information on 29 separate items relating to the Bank of America, such information apparently being desired for use in determining whether or not the National Labor Relations Act applies to the Bank of America. That letter has been transmitted to the Office of the Comptroller of the Currency for appropriate reply.

Much of the requested information is not in the possession of the Office of the Comptroller of the Currency and some of the items are obviously of a confidential character and accordingly should not be transmitted to the representatives of the National Labor Relations Board in the absence of a direction from the President pursuant to section 11 (6) of the National Labor Relations Act.

Accordingly, there is attached a suggested draft of a memorandum from you to the Acting Comptroller of the Currency, and a suggested draft of a letter to the examiner of the National Labor Relations Board transmitting a copy of the latest Report of Condition of the Bank of America (which report has already been published) and advising him that confidential information can only be furnished by direction of the President.

*Harman O. Clibborn*

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE

TO Acting Comptroller of the Currency  
FROM Secretary of the Treasury

Reference is made to a letter of April 19, 1938 to the Office of the Comptroller of the Currency from Mr. William Prentiss, Jr., Chief National Bank Examiner of the 12th Federal Reserve District, enclosing a letter to Mr. Prentiss from Mr. George C. McKay, Field Examiner of the National Labor Relations Board, Los Angeles, California.

In his letter Mr. McKay requested that the Chief National Bank Examiner of the 12th Federal Reserve District submit certain information to be used in assisting representatives of the National Labor Relations Board in determining whether or not the National Labor Relations Act applies to the Bank of America. Mr. Prentiss transmitted Mr. McKay's letter to your office with the request that an appropriate reply be made thereto.

It is apparent that some of the information requested by Mr. McKay is not in the possession of your Office and also that some of your information is of such a confidential character that it could not be furnished in the absence of a direction from the President pursuant to section 11 (6) of the National Labor Relations Act. However, the Treasury Department should do nothing to hinder the National Labor Relations Board in executing and administering the National Labor Relations Act and should cooperate with the Board in so far as it is possible. I suggest that a copy of the most recent Report of Condition of the Bank of America be made available to Mr. McKay accompanied by an appropriate explanatory letter. A proposed draft of such a letter is attached.

A copy of Mr. McKay's letter and your reply should be transmitted to the Chairman of the National Labor Relations Board.



Mr. George C. McKay,  
Field Examiner,  
National Labor Relations Board,  
745 Pacific Electric Building,  
6th and Main Streets,  
Los Angeles, California.

Dear Sir:

Reference is made to your letter of April 14, 1938 (XXI-C-570-GDM) addressed to Mr. William Prentiss, Jr., Chief National Bank Examiner of the 12th Federal Reserve District, in which you request certain information which you indicate is to be used in determining whether or not the National Labor Relations Act applies to the Bank of America.

In response to your request there is enclosed herewith a copy of the latest Report of Condition of the Bank of America National Trust and Savings Association, dated March 7, 1938. This report contains information with reference to a number of the items referred to in your letter.

Much of the information which is requested in your letter is not in the possession of the Office of the Comptroller of the Currency and certain items of the information which are in the possession of this office are of a confidential character.

It is the desire of this office to cooperate in so far as possible with the National Labor Relations Board in the fulfilling of its functions. However, the relations of the Office of the Comptroller of the Currency to the various national banks of the country are

- 2 -

in many respects of such a confidential character that much of the material in its possession could not be divulged without the possibility of resulting injurious effects upon the banks in question. Accordingly, this office could not transmit such confidential information to a representative of the National Labor Relations Board in the absence of a direction by the President pursuant to section 11 (6) of the National Labor Relations Act, 49 Stat. 456 (U.S.C., Sup. III, title 29, sec. 161 (6)).

Representatives of this office will be glad to discuss this subject further with representatives of the National Labor Relations Board should the Board so desire, and will cooperate with the Board in every way possible.

Very truly yours,

Comptroller of the Currency.

12044

EXHIBIT 1

**Bank of America**  
NATIONAL TRUST ASSOCIATION

SAN FRANCISCO HEADQUARTERS

RUSSELL G. SMITH  
VICE PRESIDENT AND CASHIER

SAN FRANCISCO, CALIFORNIA

July 9, 1938.

Honorable Marshall R. Diggs  
Acting Comptroller of the Currency  
Treasury Department  
Washington, D.C.

My dear Mr. Diggs:

Our counsel, Mr. Zach Cobb, has reported the conversation with you on the telephone yesterday and has indicated that approval of our applications for branches is being held up because certain items classified as losses in the examination report of August 31, 1937 have not been charged off. I reported on these items to the examiner on Thursday, July 7, and he in turn transmitted the report by telephone to Mr. Folger. However, I want to again review the losses as summarized in the report and indicate the disposition which has been made of each item.

Loans and discounts - estimated losses \$2,520,643.61: -

Loans charged off	\$ 775,626.47
Reserve set apart for German credits	1,000,000.00
Loans charged off since June 30	60,156.00

Balance not charged off as of this date \$684,861.15 includes the following items:

Loss classified based on sale of Los Angeles subdivision real estate subject to contingent liability for street improvements	425,000.00
Classified loss on real estate in process of foreclosure	174,818.03
Loan loss	12,757.00

The contingent liability under the subdivision properties referred to above at this date is \$331,447.40. We will now eliminate this account by charging expense.

Honorable Marshall B. Sizoo

It has always been our understanding with the accountants that losses classified on real estate loans under foreclosure will be charged off as the foreclosures are completed. This is the most practical way of handling these items from an accounting standpoint. The remaining loss of \$12,757 is no longer an admitted loss as a result of improvement in the value of collateral.

Overdrafts

\$ 4,440.63

These items have been entirely eliminated

Bonds, Securities, etc.

2,836,769.31

\$313,000 of this amount has been eliminated by charge to losses and an increase in the valuation of reserves for sub-standard securities.

The balance of \$2,523,115.71 represents market depreciation upon \$105,000,000 par value U. S. government bonds and \$28,159,500.00 par value municipal bonds previously written up.

All of the government bonds listed in this classification have been sold thereby eliminating the loss classification of \$2,064,300.15. The remaining municipal securities are carried on our books at \$31,288,912.03 representing an increase in book value over original cost of \$1,834,233.03. As of August 31, 1937 these bonds had depreciation of \$458,815.56. An appraisal on market values will show these bonds to have a market value in excess of book value and we submit that on basis of present values there should be no requirement that any writeoff be made in the value of these securities.

Banking House

\$ 336,409.50

Unamortized balance of leased premises, alterations charged off

10,409.50

The balance of this classification is an item of \$326,000 representing the difference between the book value of our investment in the Merchants National Realty Corporation and the net worth of the company as of August 31, 1937.

Due to earnings the net worth of the company has improved and the difference between book value and net worth is now \$203,628.82. This difference will be eliminated over a comparatively short period of time out of earnings of the company but in order to eliminate this item we are now setting up a reserve of \$203,628.82 out of undivided profits.

Honorable Marshall E. Edgson

Furniture and Fixtures \$ 25,220.93

This item has been charged off

Other Real Estate 183,301.54

All of these items either have or will be eliminated

Other items 98,183.76

All of these items have been charged off

From the above review of classified items and our action with respect to them you will observe that there only remains, subject to discussion, \$458,815.56 representing depreciation on municipal bonds which depreciation existed on August 31, 1937 but does not exist on present market value. We do not feel that this item is a proper loss classification particularly under the modified regulations with respect to investments and examinations.

We should appreciate it very much if you would again review our examination report and the action which we have taken with respect to it with the Secretary. I feel sure that when the action which we have taken with respect to the report is reviewed, you will agree that we have substantially complied with all of the recommendations of the report.

Yours very truly,

(Signed) R. G. Smith

Russell G. Smith  
Vice President and Comptroller.

"EXHIBIT 1"

## TREASURY DEPARTMENT

Comptroller of the Currency

WASHINGTON

July 15, 1938.

Mr. Russell G. Smith  
 Vice President and Cashier  
 Bank of America, National Trust &  
 Savings Association  
 San Francisco, California

Dear Mr. Smith:

Receipt is acknowledged of your letter of July 9, referring to conversation had with your counsel, Mr. Zach Cobb, regarding the applications for branches and also the estimated losses as shown by the last report of examination of the bank.

According to your letter and other information in this office recently obtained you have charged off less than one-third of the losses estimated in the last report amounting to \$6,004,866.18. It appears from the information that items aggregating approximately \$4,654,000 have not actually been written off. This total consists of the following items -

\$1,000,000 on German credits, for which you state a reserve has been set apart	
Los Angeles subdivision real estate subject to contingent liability for street improvements	\$425,000
Estimated losses on real estate in process of foreclosure	\$174,818
Other loss in loans	\$ 12,757
Bonds and securities	\$2,523,000.
off. Loss estimated on account of bonds having been written up on books of the bank.	
Banking house	\$336,000
Other real estate	\$183,000

With respect to the German credits, it has always been the position of this office that estimated losses should be written off and it is not satisfactory to set aside reserves for determined or estimated losses.

With reference to the writing up of certain United States and municipal bonds, you state in your letter that all of the United States Government bonds written up have since been sold. In your opinion, this eliminates loss of \$3,000,000.

Will you please advise this office of the results of your sale in the last report of examination of the bank.

13044

"EXHIBIT 1."

# Bank of America

NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

RUSSELL G. SMITH  
VICE PRESIDENT AND CASHIER

SAN FRANCISCO, CALIFORNIA

July 22, 1938.

Honorable Marshall R. Diggs  
Acting Comptroller of the Currency  
Treasury Department  
Washington, D. C.

My dear Mr. Diggs:

This is in reply to your letter of July 15 with respect to the disposition of estimated losses as shown in the report of examination of this bank as of August 31, 1937. It appears that there is still some misunderstanding with respect to the status of various items classified as losses in that report and so we have asked the examiner, Mr. L. H. Sedlacek, who made the report, to make a supplemental report to you. He has now reviewed the various items with us and we assume that you will receive his report concurrently with the receipt of this letter.

However, in order to reply to your questions and in confirmation of my conversation with Mr. Clarence F. Smith of your office, I will review herein the various items and the action taken with respect to each.

In the report there is listed total estimated losses of \$6,004,866.18 as follows:

LOANS:

\$2,520,643.61

Of this amount we have charged off as loan losses \$835,782.27. We have eliminated the loss classification of \$425,000 in connection with Los Angeles Subdivision real estate by charges to Expense. We have transferred from Undivided Profits to a reserve for contingencies earmarked for the purpose, \$1,000,000 to eliminate the loss classification of that amount in German credits. We have not charged off sundry loan losses aggregating \$84,399.70 because these items were only tentatively admitted as losses with the understanding that chargeoff would be made if there was no improvement at the next examination. We have not charged off \$174,818.03 representing losses classified in connection with loans in the process of foreclosure because the foreclosures have not been completed. It is our practice in this connection to take any estimated loss in the acquisition of real estate at the time the foreclosure sale is held.

July 22, 1938

The operating reasons for this are known to the examiner and the procedure has had his concurrence.

BONDS AND OTHER SECURITIES:

\$2,836,769.31

\$313,000 of this amount related to bonds in default and sub-standard securities. These items were eliminated by a charge to losses and a corresponding reduction in book value of the securities. The balance of the classification, \$2,523,769.31 related to depreciation, at the time of examination, in certain United States and municipal bonds previously written up. Subsequent to the examination all of the United States Government bonds included in this classification were sold and the loss classification of \$2,064,300 thereby eliminated. Profit or loss, including the realization of the writeup of these bonds, was cleared from the books at the time of sale. The remainder of this loss classification, consisted of \$458,000 classified as depreciation in certain municipal bonds previously written up. This item was reduced to \$381,748 by sales and maturities and the balance eliminated through the writeoff of \$668,595.53 of premiums. In the examination of August 31, 1937, the examiner did not take into consideration the amounts which had been set aside to amortize the premiums on these bonds. Since the examination there have been further regular writeoffs of the premiums. In the writeup of the bonds further premium was added to book value and the writeoff of the premiums has therefore accomplished the elimination of the loss classification set up in the report. There has perhaps been some confusion with respect to this item because we have referred to the writeoff of bond premiums as a "reserve". However, this reserve which is indicated on our ledger as "Allowance as Extinguishment of Bond Premiums" is a valuation reserve deducted from the book value of the securities to which it relates, so that it does actually represent a write down of the book value of the securities.

- \* There is approximately a \$55,200 difference between this figure and Mr. Sedlacek's supplemental report because he did not take into consideration the partial sales indicated by comparison of par value owned at August 31, 1937 and July 15, 1938 in schedule of these bonds attached to his report.

BANKING HOUSE:

\$ 336,409.50

As mentioned in my letter of July 9 we have charged off \$10,409.50 of this amount representing the unamortized balance of a leased premises account. Further, we have eliminated \$122,317.13 by increasing the net worth of the Merchants National Realty Corporation. The balance is the difference

Excessible

between the... Merchants National Realty Corporation... value of the investment. This amount was also allocated... letter to you of July 9 through the write down of the book value of Merchants National Realty Corporation.

FURNITURE AND FIXTURES: \$25,220.93

This item has been charged off.

OTHER REAL ESTATE OWNED: \$183,301.54

In connection with this item we have eliminated \$162,341.99 through the sale or write down of book value of the properties. In eliminating these items we have actually taken a loss of \$180,091.68. There remains three properties in which the loss classification was \$21,161.55 which we have not written off because appraisals made subsequent to the examination indicate that the value of the properties exceeds our book values. These items, we feel, should be reviewed at the next examination.

OTHER RESOURCES: \$98,183.76

These items have all been charged off.

To summarize, there remains of the loss classification of \$6,004,866.18, only \$280,379.28 not charged off, as follows:

Loans	\$ 84,399.70
Real estate in process of foreclosure	174,318.03
Other Real Estate	<u>21,161.55</u>
	280,379.28

The examiner's supplemental report should confirm this and when you have reviewed these figures we hope that we may have a clearance with respect to this examination and an early favorable answer on the applications for branches which have apparently been withheld pending a satisfactory report on the last examination.

Yours very truly,

(Signed) R. G. Smith  
Russell G. Smith  
Vice President and Cashier.

CC - Mr. A. P. Giannini  
CC - Mr. William Prentiss, Jr.

# Bank of America

NATIONAL TRADING ASSOCIATION

SAN FRANCISCO HEADQUARTERS

RUSSELL G. SMITH  
VICE PRESIDENT AND CASHIER

SAN FRANCISCO, CALIFORNIA

August 24, 1938

Honorable Marshall R. Diggs  
Acting Comptroller of the Currency  
Treasury Department  
Washington, D. C.

My Dear Mr. Diggs:

In my letter to you of July 22 I reviewed the action which had been taken with respect to the loss classification in the examination report of August 31, 1937. The amount of loss classification which had not been charged off was summarized on July 22 as \$280,379.23.

There have been some further changes since that date and as of August 22, 1938 the loss classification not charged off has been further reduced to \$220,594.10 which is summarized as follows:

Loans	\$ 32,382.60
Real Estate loans in the process of foreclosure	171,935.22
Other Real Estate	<u>16,276.28</u>
	\$220,594.10

This letter is to supplement my letter of July 22 and to bring the figures up to date. I appreciated the opportunity to discuss this matter with you on the telephone and to explain the reasons why the above items have not been charged off.

Yours very truly,

(Signed) R. G. Smith

Vice President and Cashier.

September 9, 1938

11:30 am

Present:

Mr. Taylor  
Mr. Upham  
Mrs. Klotz

Later:

Mr. Diggs  
Mr. Folger  
Mr. Irely

Mr. Upham: You want the bad news first or the good news?

HM, Jr.: Always the bad first; work up from the bottom.

Mr. Upham: May I read it? I have not had time to get the necessary copies. I did this last night.

(Reading Report attached marked (I))

HM, Jr.: (after Upham had completed reading): Is that the one you say is unpleasant?

Mr. Upham: The bad one is my own fomulations.

Now I have a program which Mr. Diggs and Mr. Folger have made up, a program of what they want the Bank to do. Shall I give you that one before I give you the bad one?

HM, Jr.: You use your judgment.

Mr. Upham: This is bad from my standpoint. You won't like me when I get through this. I will give you the program first. No, I will do this. And the very first paragraph has a remark which I want to say, very much ....

HM, Jr.: (Interrupting) To operator: Tell Folger and Diggs to stay in their respective offices until

-2-

one o'clock.

Mr. Upham: I never go out of my way to say anything to you about Jews, but neither do I ever go out of my way to avoid saying anything about Jews.

(Reading from Exhibit II, attached.)

HM, Jr.: (Interrupting at end of first paragraph. Who is this talking?)

Mr. Taylor: Giannini says this.

Mr. Upham: No. The Chief National Bank Examiner of the San Francisco District tells me this; day before yesterday.

HM, Jr.: This is what Giannini says?

Mr. Upham: No, this is what the Chief Bank Examiner says.

HM, Jr.: But who is talking about the 'damn Jews'?

Mr. Upham: Giannini.

HM, Jr.: Who is the Chief Examiner?

Mr. Upham: Prentiss.

(Reading at foot of page 2): "It is pointed out that Mr. Giannini bragged that he would get rid of the former head of the Federal Reserve Bank of San Francisco and that that official was removed. It is pointed out that the new chairman of the Board of the Federal Reserve Bank of San Francisco, appointed by the Board of Governors in Washington, is closely tied in with the Transamerica group and has been extended many million dollars of credit by the Bank of America."

HM, Jr.: (Interrupting the reading) Who is this saying this?

Mr. Upham: Rumor. Gossip. The situation as it was told me when I was in California and which is bandied about the streets of Washington every day.

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Mr. Upham ( resumed reading and concluded without interruption.)

HM, Jr: What's the matter with that report?

Mr. Upham: Well, it's my complaining and criticizing other people. You once told me that I could criticize other very well; I ought to do a little on myself, and I think that's what it is.

HM, Jr: I think it is a good report.

Have you initialed that?

Mr. Upham: No, I haven't.

HM, Jr: Well, you had better do it.

Mr. Upham: (Initialed report)

HM, Jr: I am glad to get it. Now let's see what we can do about it. Now, what are the recommendations?

Mr. Upham: (Reading from Exhibit III attached.)

HM, Jr: Whose recommendation is that?

Mr. Upham: Both Folger and Diggs.

HM, Jr: But they have not signed it;

Mr. Upham: Do you want them to sign it?

HM, Jr: Yes. I am going to have them in before one o'clock.

Mr. Upham: Don't be too tough on them.

HM, Jr: Listen, fellow! You put this in writing.

Mr. Upham: That's their program.

HM, Jr: I am going to give them a time limit to put this in effect.

Mr. Upham: That's the third thing you asked for;

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a program.

HM,Jr: That's right.

Mr. Upham: And there they say 'What can you do?'. That's their answer.

HM,Jr: They can't do this?

Mr. Upham: What can they do! They say we tell Mr. Giannini to do these things and he says he won't and we can't do anything short of closing the bank or removing him by citing him to the Federal Reserve Board and that will just upset all the banks on the Coast and you will have a terrible mess.

HM,Jr: Is Prentiss in town?

Mr. Upham: Yes. Of course, each one talks about the other. The three of them -- a triumvirate -- and each could cut each other's throats.

HM,Jr: That's all right.

Mrs. Klotz: Don't you want to think about it?

HM,Jr: No; I have had plenty of time.

Mr. Upham: Well, it's partly my fault. I should have spent the last couple of months being you and running the Comptroller's Office.

HM,Jr: No. I think this: I think the responsibility is divided between the three of us.

(At this point: HM,Jr telephoned Mr. Prentiss, Mr. Diggs and Mr. Folger and asked them to be in the Secretary's office in five minutes.)

This is very simple. I am not going to get emotional. I am going to ask them if this is their recommendation and will they sign it and simply say, 'All right, gentlemen, I accept the suggestions. What is a reasonable time to ask you to put these into effect? All right, I am going to hold you two people strictly accountable for your own recommendations within the

-5-

time limit you have set. I am not adding or subtracting. I am taking it at face value. I am going to hold you strictly responsible to the recommendations.'

Mr. Upham: The authority rests in the Acting Comptroller.

HM, Jr.: I will say in front of him 'Either you are the Acting Comptroller or not. Are these your recommendations? All right. Will you please sign it? All right. Now, gentlemen, what is a reasonable time to ask you to put these into effect?'

Mr. Upham: Of course, that's the tough part of it -- putting it into effect.

HM, Jr.: Then why have a National Bank system? How can I take the position that it's an adjunct of the Treasury .....

Mr. Upham: I agree with you.

Mr. Taylor: There isn't anybody in the Comptroller's Office that has any guts. That's the whole trouble.

HM, Jr.: I know that.

Mr. Taylor: And Jefty never had any guts. Marshall Diggs has not any guts. And Gus Folger hasn't got any guts. That's the whole trouble with the Comptroller's office.

Mr. Upham: If they had, he might.

HM, Jr.: I have been fussing around and asking for reports -- for how long?

Mr. Upham: Began in 1937. I don't know just when.

You appreciate that a lot of this stuff in my memorandum is gossip. It may or may not be true. It's talk.

HM, Jr.: I am not going to show it. When I get this cleaned up, I am asking you officially to get me a similar report, when I come back Tuesday, as to what recom-

-6-

mendations they make in regard to Anglo California. I want a similar statement on Tuesday.

Mr. Upham: All I know about that is what Prentiss tells me. It may or may not be true.

HM, Jr.: All right. And I am telling them to keep Prentiss in town until I come back Tuesday and between now and Tuesday I want a piece of paper from these two same gentlemen what they recommend is necessary on the Anglo California Bank and, I go one step further, what other bank in the United States; but specifically on the Anglo California.

Mr. Upham: I asked him what others.

HM, Jr.: Wayne, are you with me on this?

Mr. Taylor: (Nodded assent.) Just a thousand per cent!

(Mr. Diggs and Mr. Folger came in at this point.)

HM, Jr.: Mr. Upham has just given me this memorandum and I would like to know if it expresses the opinion of you two gentlemen and, if it does, whether you would both sign it.

Mr. Diggs: That's the one we prepared last night.

Mr. Folger: (To Mr. Diggs) There was a little change in re-writing the corrected copy. This paragraph is the only change; nothing new.

HM, Jr.: How would you change it?

Mr. Diggs: No ; just a change since I saw it.

Mr. Folger: It's about the earnings record and dividends paid since 1930.

Mr. Diggs: Those are the facts.

HM, Jr.: Do you care to sign it?

Mr. Diggs: Yes; very glad to.

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HM,Jr: Now, Mr. Acting Comptroller, what do you consider a reasonable time for you to see that those recommendations are put into effect?

Mr. Diggs: Well, some of it is going to take considerable time to work out.

HM,Jr: I want a time limit. I want you to tell me in so many days I can do the following.

Mr. Diggs: I would like to take it and look at it, because some of it will take a lot of time.

HM,Jr: Let's take the dividend one.

Mr. Diggs: I think he has already declared it for this year. He had his meeting in June and declared it for the year. Nothing can be done on that until next year.

HM,Jr: I don't know whether you are right or not.

Mr. Upham: He declared it for half a year.

Mr. Diggs: Are you sure?

Mr. Taylor: That would be for the rest of this calendar year.

Mr. Upham: Declared semi-annually, payable quarterly.

Mr. Folger: Yes.

Mr. Diggs: He could also declare an annual and pay quarterly.

HM,Jr: Can he declare for the next year too?

Mr. Diggs: Oh, no. Declare for one year payable quarterly.

Mr. Folger: Declare in December, payable in May, and in June he will declare one in June payable in December.

Mr. Diggs: And that one has been declared.

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Mr. Folger: Probably has.

HM, Jr: How about the December one?

Mr. Diggs: It has probably been declared.

Mr. Folger: I would have to see if it has been declared to run past December.

HM, Jr: You can take it and give it back to me Tuesday morning. I want a time table alongside each recommendation on how long it is going to take you to put each one of these things, of your own recommendations, into effect. I want to know -- you can list them. You make certain recommendations and I want to know 'Recommendation #1: will be carried out within so many days. Recommendation #2, and so on.'

I have been fooling around with this thing for months. We have talked about this dividend thing for months and it's just a question of how much longer you people are going to kid me about it, and you have had plenty of time to do this. There is nothing new in this.

Mr. Diggs: The immediate problem I had when I came over<sup>ed</sup> to get a charge-off in examination. Mr. Smith, the cashier, was here last week and he has agreed practically to \$100,000 to \$200,000, in six months, on the charge-offs. That was done last week.

HM, Jr: Have they been charged off?

Mr. Diggs: They say they have.

Mr. Folger: They said they had. Talking with the Examiner, he said he had been in 400 branches since Smith started east and found that the Directors had been authorized to charge off, but some had not actually been charged off.

HM, Jr: What I am asking is this: I am simply going to ask this: here are these recommendations. When I get back Tuesday I want to know, after each one

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of these, that you say you can have these carried out in so many days.

Now, the other thing. There are certain charges that have been made against the Anglo California Bank. I would like to know whether, in your opinion, there are certain changes which you want to recommend in regard to the Anglo California Bank. I want that besides. While you are doing it, you can put in the number of days which it will take to carry out each recommendation. And then, third. How many other banks are there in as precarious a condition as Bank of America is on your say so and the Anglo California on the say so of gossip? How many others are there like that?

And then, I want to see Prentiss, because Prentiss has informed me, through Upham, that there are certain things he wants to do to clean up his office and I want to know what they are. I got a lot of responsibilities and I ought not to have to ask for any of these, but it seems as though it was necessary.

Mr. Folger: Mr. Prentiss has made no recommendations that have not been carried out in the Comptroller's Office.

HM, Jr: Well, we will get them in writing from him. We will ask for them in writing. If you don't mind my saying so, you claim there is no -- I want to find out what recommendations he makes to clean out his office and make it possible to carry out his sworn duty, which he says he has not been able to do. This is pretty serious.

Mr. Diggs: Yes, I know. We asked him to make certain recommendations on his personnel out there.

Mr. Folger: He said they were not completed and would bring them in this morning and they are not in yet.

HM, Jr: Will you ask him for his recommendations and then may I see a copy of them? and also the number of days it take to carry out those?

How many of your National Bank Examiners have recommendations they would like to make?

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Mr. Folger: There is one or two men, Mr. Secretary.

HM, Jr.: Let's get them cleaned up now. I don't want to sit here and feel there is a lot of stuff here that may blow up under my feet. It's not my responsibility. It's your responsibility and it's just a question of who is the Comptroller of the Currency, you or Mr. Giannini. It's your question. It's been this way and, as far as I am concerned, I want to know and within a very short time.

Mr. Diggs: There are some of those things that are going to take some time to do.

HM, Jr.: And I am telling you now that I am asking Elmer Ireby to make an investigation of charges that have been brought to me of Mr. Roberts' political activity and I want every cooperation given Mr. Ireby to run that down to the limit of just what Mr. Roberts did. I want every cooperation.

If there is anything else that is around on any other bank that smells as bad as this does .....

Mr. Folger: No, we don't have any other like the Bank of America.

HM, Jr.: What about the Anglo California Bank?

Mr. Folger: It's not a very good situation either. Quite different from the Bank of America.

HM, Jr.: You people both know, under the law and under your oaths and legal responsibilities, it's your responsibility and my interest in this is, as far as I know I don't have any responsibility; I am taking it on gratuitously, because I am interested in the welfare of the people of America, the depositors, and anything that either of you have got you had better give it to me voluntarily because I will get it anyway. I am not going to fool around. I have waited and waited and waited and it is always what Mr. Giannini and Mr. Smith and Mr. Cobb, his attorney -- always what they recommend or what they want. But I am putting you on notice just what I am going to do and I am going to the bottom of

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this and I am not going to fool around. I have been very, very patient.

So if I could have a report on time limit on Tuesday and I would like to have a report on what is the matter with the Anglo California Bank and there are any other banks or anything else -- because I don't like to get reports that the Comptroller of the Currency is seemingly not carrying on his duties. So I will see you again, let's fix a time on Tuesday. Wayne, are you in complete accord with me on this?

Mr. Taylor: Yes.

HM, Jr: Entirely?

Mr. Taylor: Yes.

HM, Jr: Anything you want to add?

Mr. Taylor: No.

HM, Jr: Going at it right?

Mr. Taylor: Only way you can go at it because that Coast situation apparently runs itself.

HM, Jr: You know, on the chart, the Comptroller of the Currency is placed under you.

Mr. Taylor: Yes.

HM, Jr: Supposing we say 11 o'clock Tuesday.

And I might add that telling the Bank of America that I am the person holding up their charters does not help the situation at all; does not help matters a bit, because I have not held up anything that you have recommended in writing. Nothing!

I might also add that what they are saying here, from the standpoint of the depositors and stockholders in these respective banks, naturally is filled with dynamite and, as far as this room, it is in strictest confidence. If there are any leaks it will be from

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the Comptroller's Office. It will not be from this office. There will not be anything in the Bankers' Magazine from this office.

Mr. Diggs: You don't think there will be anything in the Bankers Magazine from our office?

HM, Jr: There always has been. I am just inquiring. I feel the responsibility and nobody gives me -- nobody tells me fairy tales because I am beyond that stage, but Mr. Taylor, Mr. Upham and I are taking this responsibility for the President, so in order to keep this thing -- we are just not going to take any more excuses. I just am not going to do it. It's too serious. I am sick and tired of being told, whenever I raise the dividend question, it has always been declared for six months.

If that is your recommendation, there is a cut-off time sometime and I want to know when and I want to know what you fellows are going to do and I want to know, as far as California is concerned, who is the Comptroller of the Currency. And I don't want to be the Comptroller of the Currency or the Chief National Bank Examiner or the Examiner for the California district. All right, gentlemen.

(Mr. Diggs and Mr. Folger left the Secretary's office.)

HM, Jr: I just wanted to bring you in to this extent, Wayne. It is there. I joked about it being on the chart, but it is there.

Mr. Upham: You have been depending on me to have something and I fell down on you both.

Mr. Taylor: Not a bit. You can't do business with a bad man.

HM, Jr: What I am doing is this ;; when I first went to the President, months ago, put him on notice on this thing. Jefty is around and he wants this job. This fellow is here and Jeft is still pushing me plenty.

Mr. Taylor: Neither one is qualified for the post.

HM, Jr: Nobody is going to put a report under my nose and let the sun set on it. That's my policy.

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Mrs. Klotz: I don't think these boys can do anything.

HM, Jr: I can remove the Acting Comptroller and, pending the President's decision, my thought is to make Gus Folger Acting Comptroller. You can think it over.

Mr. Taylor: He hasn't got any guts either.

HM, Jr: Well, think it over.

Mr. Upham: I meant to say one other thing when I came in and be forgiven in advance. There are just two things that have happened in the years I have been here that have taken the heart out of me tremendously. The first one was the appointment of Diggs and Oppgaard as Deputy Comptrollers and your statement, the other day, that you would be delighted to have Jefty back.

HM, Jr: We are both being frank and I will be frank, because I put the heat on you. I have been gone two months, but everything you brought to me you could have brought to Taylor's attention while I was gone. Let's all be honest, and while I was gone and while he was in full charge, and I had to put the heat on you in order to get it. So let's be 100% honest.

Mr. Upham: I accept that 100%.

HM, Jr: As long as we are all being very frank. But no reason why I should always have to put the heat on in order to get a thing and if you had handed that to Taylor, it would have been his responsibility and he would have had a couple of months to fool with it. If I were in Diggs' place -- why is Morgenthau so suddenly decided; it must be because O'Connor is in town. But it isn't. I knew it was happening. Nothing done and a couple of months will roll around. I don't know what SEC has done with Bank of American stuff. I may be a little self-righteous.

Mr. Upham: I haven't a thing to say.

HM, Jr: All right. So that's that. But fortunately we can say those things to each other.

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Mr. Taylor: I certainly would like to join with Cy that the two biggest mistakes you could make would be to appoint either O'Connor or Diggs to that job. In this report, the Upham report, based on action of the Comptroller's office, you have five years of O'Connor in there.

HM, Jr: That penetrated.

Mr. Upham: He doesn't have time.

Mr. Taylor: Neither one of them have time.

Mrs. Klotz: Yes, but will this boy now go back and do it -- O'Connor?

Mr. Taylor: I don't think so.

HM, Jr: It's like this fellow, Mike Igoe, in Chicago. Now that he has broke with the crowd, I understand he's going back to what he was 20 years ago and become a Prosecuting Attorney.

(At this point Mr. Ireys came in.)

Elmer, I just told the Acting Comptroller of the Currency, Mr. Marshall Diggs, and Mr. Folger, Chief Bank Examiner, that I was asking you to make a complete investigation of the activities of Mr. Roberts, Chief Bank Examiner for New York, who circulated a petition for the renomination of Mr. Diggs for permanent Comptroller of the Currency. Now, there is one piece of paper which I got, which Mr. Diggs asked me to see; he did not have a copy. The point is I want that and I want all the telegrams turned over to Mr. Ireys to see, and I think the best thing to do is to start with Mr. Roberts and ask him 'How did you happen to start this campaign for Mr. Diggs?'

Mr. Upham: I don't think <sup>they thought</sup> you meant that Roberts.

HM, Jr: I told Diggs, and I told Folger that I expect them to give you every cooperation. And they have those telegrams plus a letter which he circularized.

Now, for your information, J. F. T. O'Connor tells

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me that this campaign started while he was in office. He also told me that Mr. Cobb, the attorney for the Bank of America, called up Mr. Prentiss on the telephone while Prentiss was attending a convention at Salt Lake City, Prentiss being Chief Bank Examiner for California, and asked Prentiss why he, Prentiss, was not doing more to help get in telegrams and Cobb said, 'Now, I just want you to understand that Diggs knows nothing about this,'-- this is important -- and hung up. Whereupon Prentiss asked that the telephone call be traced and Cobb was talking from the home of Marshall Diggs.

Now, Prentiss is in town and O'Connor is in town. They are both in town. Now, you can get somebody to look up the statute on what a Chief Bank Examiner can or cannot do politically, but there are from 5,000 to 10,000 telegrams came in here.

I have told them I am going to do this and expect them to give you full cooperation.

Now, you (Taylor) want to add anything between now and Tuesday?

Mr. Taylor: No. I think this Anglo California thing, I understand the report on the Anglo California Bank on which the recommendations are based, is due here sometime next week or so, and they feel they ought to clean up to Anglo California. At least Prentiss does. This is second hand to me. He thinks they ought to clean up that situation before they clean up the Bank of America one. I think there may be something in that.

HM, Jr: Prentiss is staying here until Tuesday?

Mr. Upham: Yes. I think he will be here longer than that. He wants to stay until the Anglo California is cleaned up.

HM, Jr: You (Upham) haven't anything as important to do as this. This is number one.

Cy, you have done a good job. I am tickled to death and we will see this thing through together.

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## EXHIBIT I.

September 9, 1938

For the Secretary:

I have taken all of the reports of examination of the Bank of America, N.T. & S.A. of San Francisco made since its reopening in 1933 and made a hasty survey of the criticisms made by the examiner. Many of these criticisms reach back into examinations made prior to the banking holiday as well. You are perhaps familiar with the fact that there was considerable opinion to the effect that the Bank of America was not in proper shape to be reopened in 1933. One important reason for its being reopened was the adverse effect on Pacific Coast banking in general that would have resulted from any other course. There was talk at that time of efforts being made to improve the condition of the bank.

Since the bank reopened it has been examined ten times by the Office of the Comptroller of the Currency. In each of these examination reports the same criticisms are made and the same recommended corrections indicated by the examiner. Some of them are of major importance and some of them are minor matters.

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Running through every report since the reopening, there has been criticism of the excessive and steadily increasing dividends that have been declared by the bank. There have been suggestions that perhaps on a strict basis the dividend was illegally declared. This was excused in the early years because the dividends, going largely to the principal stockholder, Transamerica Corporation, were utilized for a reduction in the debts of that Corporation and its affiliates to the bank. But this practice was soon abandoned, and there are evidences of transactions which are in effect dividends to Transamerica although not declared as such and not appearing as such. Regularly and repeatedly the examiner has recommended that all earnings be devoted to the elimination of undesirable and illegal assets. In the examination that ended in August, 1937, the examiner again stressed this point and stated that a further increase in the dividend was believed to be in contemplation.

The dividends have actually been increased steadily from a rate of 4.5% in 1933 to 7.5% in 1934, to 12% in 1935, to 16% in 1936, to 17.6% for the first half of 1937, to 19.2% for the second half of 1937 and continuing at 19.2% to date.

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From the beginning there have been criticisms of the excessive amounts of loans for account of Transamerica Corporation and its affiliates. This large line has been constantly criticised as in continued violation of Section 23(a) of the Federal Reserve Act.

There has been continued criticism of the contract relationships with affiliates of Transamerica Corporation whereby assets which would be classified as "other real estate" are disguised as loans. The contract entered into with these affiliates is of such a character that the real ownership of assets does not pass to the affiliate but remains with the bank.

There has been continued criticism of the disproportionate investment in real estate loans and a steady increase in illegal real estate loans and in illegal acquisition of real estate in connection particularly with the purchase of banks to be converted into branches.

There has been continued criticism of the so-called German credits that are in the bank and Mr. Giannini agreed in 1936 that \$1 million should be charged off at each semi-annual examination. Later he refused to honor that agreement and the charge-offs are at least \$1 million behind schedule at the present time.

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In 1933 after agreeing to charge off losses on real estate loans as appraised by his own officers, Mr. Giannini refused to do so and insisted upon the establishment of a reserve instead.

In 1934 the Executive Committee of the bank agreed to furnish to the Comptroller in the near future a definite program for effecting correction of the examiner's criticisms. I find no record of any such program having been furnished.

There has been repeated criticism of the large line to A. O. Stewart, now chairman of the board of the Federal Reserve Bank of San Francisco. During the second examination in 1934 Mr. Giannini refused to concur on losses agreed to by other officers of the bank.

There has been repeated criticism of the practice of the bank "writing up" Government bonds and other investment securities.

The annual meeting of the bank in 1934 was held with 1684 shares represented out of a total of 2 million outstanding.

A statement repeated in several of the examinations is that there has been "no verification of the liabilities

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due to the ineffectiveness of the same in a far-flung branch system, nor were accounts between the branches and the head office reconciled."

Throughout the examiner's criticism there appears the warning over and over again that this or that "must be stopped." But there is no stop.

There is repeated criticism of loans against the stock of Transamerica Corporation.

In one or two examinations there have been evidences of a certain degree of reasonableness on the part of the bank's officials and some disposition to cooperate. This is particularly noted in the examination which was completed in May, 1935. Since that time friction has increased.

There seems to be very little available in the files of the Office of the Comptroller of the Currency in the way of correspondence with the Bank of America or memoranda of conversations with its officers in regard to the examiner's criticisms.

On January 31, 1938 Mr. Giannini and Mr. Folger had a long conversation in Washington. The main important criticisms of the bank were presented to Mr. Giannini but apparently only arguments against the validity of such criticisms were elicited from him. Apparently no progress was made.

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On September 1, 1938 the Cashier of the bank, Mr. Russell G. Smith, had a conference in Washington with Mr. Folger. Mr. Folger went over again with Mr. Smith much the same material that he had gone over with Mr. Giannini previously. Apparently Mr. Smith's only interest was in securing approval of pending applications for branch permits. Neither he nor Mr. Giannini appeared to have any comprehension of or concern about the condition of the bank.

I find no record of action taken by the Comptroller of the Currency or the Acting Comptroller of the Currency during this entire period.

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## EXHIBIT II

September 8, 1938

For the Secretary:

Mr. Giannini has a new defense, I am told, to back up his claim that he is being persecuted by the officials of the national banking system. He now says "Why don't you do something about those damned Jews down the street? Their bank is in a lot worse condition than mine."

He refers to the Anglo California National Bank, which is operated by the Fleishhackers. It appears that the Anglo California has extended lines of several millions of dollars to the Fleishhacker brothers without the knowledge of the board of directors of the bank. Criticisms by national bank examiners and demands that the board of directors be informed of the situation are met with the reply that the entire board of directors would resign if they knew the facts. I understand that the chief examiner in San Francisco has recently told the Fleishhackers that unless they inform their own board of directors, he will call a meeting of the board himself and read the report of examination to them. The situation in this bank is thought to be more fraught with possibilities of imminent danger than even that of the Bank of America.

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This situation reveals the chaos of fact and gossip, rumor and suspicion which at the present time permeates the banking situation in California, particularly, and to a lesser degree throughout the country. How does Mr. Giannini know what the facts are with respect to the Anglo California Bank if its own directors do not know? How do other people up and down the Coast know about the situation in these two banks? It has long been a common rumor in California that Mr. Giannini owns the Federal Reserve Bank of San Francisco; and because he has a working arrangement with the Eccles group to keep out of Utah and Idaho, has an influence with the Federal Reserve Board in Washington; and because of his political activity has an influence with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation, and with one of the President's secretaries. It is pointed out that Mr. Giannini bragged that he would get rid of the former head of the Federal Reserve Bank of San Francisco and that that official was removed. It is pointed out that the new chairman of the board of the Federal Reserve Bank of San Francisco, appointed by the

- 3 -

Board of Governors in Washington, is closely tied in with the Transamerica group and has been extended many million dollars of credit by the Bank of America. It is commonly gossiped up and down California that Mr. Giannini has defied the Comptroller of the Currency and has refused to do what they demand of him and seems to be in every way on top in the contest. It is his boast that he has had national bank examiners removed and transferred when they were too critical of his operations. Bank examiners are said to be reluctant to see copies of their examinations go to the Federal Reserve Bank of San Francisco because they appear to feel that whatever the chairman of the board of that Bank knows about other banks in California, Mr. Giannini will soon find out.

Mr. Russell Smith, the Cashier of the Bank of America, was in to see me one day last week. He said that he had been informed by Mr. Diggs the applications of that Bank for branches were being held up by the Secretary of the Treasury. Mr. Smith professed to believe that the Secretary of the Treasury might consult me with respect to the applications and Mr. Smith told me that he would appreciate it very much if I would make a favorable report. He said that they had met all the demands made upon them by the Comptroller

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of the Currency and he thought that they ought to be given consideration in the matter of the branches. The Chief National Examiner, on the other hand, told me that the Bank of America has done substantially nothing to comply with the suggestions made by his Office and that the statements made by the Cashier of the Bank with respect to some of the minor matters are not borne out by the facts.

The situation with respect to the Bank of America as I see it is that

- (1) The number of their branches and the complexity of their affiliated inter-relationships is such that it is next to impossible for examiners to ascertain the facts.
- (2) The situation has been dealt with with such a lack of insistent and continued firmness over so long a period that an effective reversal of policy is now extremely difficult.
- (3) The whole attitude of the head of the bank is one of refusing to admit that any kind of criticism is justified and

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of resisting any change suggested by examiners and of refusing to meet facts head on, but instead is one of drawing red herrings across the trail, going off on irrelevant tangents, and making the oft-repeated statement that "You can have the damned bank and run it yourself."

- (4) Inadequate authority short of very extreme measures for the Comptroller to deal with a recalcitrant banker who refuses outright to pay any attention to the criticisms of bank examiners.

On the other hand, there are those who point out that Mr. Giannini, as perhaps no other banker in the country, is, on the face of things at least, operating his bank along New Deal lines. He points to a record of cooperation in the program of the Federal Housing Administration that is outstanding. He makes much of the fact that his bank is liberal in its lending policy. He points to his large purchases of Government securities. He insists that he is doing the things in his bank that the Chairman of the Board of Governors of the Federal Reserve System and the Chairman of the Reconstruction Finance Corporation urge banks to do.

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It is difficult for national bank examiners to have any influence with the banks they examine unless they get backing and support from Washington. When their complaints about the actions of national bank examiners made to banking officials in Washington are met with cordial letters of agreement with the banker as against the examiner, it leads toward discouragement. That seems to have happened of recent years with increasing frequency. Two or three interesting cases have come to my attention.

There is a fairly general breakdown of morale throughout the national bank examining system by reason of rumors as to what happened in the San Francisco District and what is said to be happening now in the Dallas District. It is commonly reported that the California District was filled up with inadequate and incompetent examiners, others being transferred out of the District. The chief examiner of that District tells me that there are six examiners who ought to be fired immediately. At least one of them is a chronic drunk and has cashed checks upon banks he is examining without having funds on deposit there. Instead of reporting these matters to the Chief National Bank Examiner or to the Acting Comptroller of the Currency,

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the Twelfth District chief took the matters up with a candidate for Governor of California because they had been originally appointed to their positions by him. He was asked to try to work the situation out and to give them another sixty days for a chance to make good.

I gather from a long conversation with the chief in the Twelfth District that he feels the situation out there is very critical, that he is doing his best to clean it up in honest fashion but that they must have backing and support from Washington. He feels that it would be a mistake to put in as Comptroller or to leave in as Acting Comptroller anyone who is connected with California politics or connected with those who are connected with California politics. He professes to be very much heartened by the rumor that the Secretary of the Treasury is taking a direct hand in the administration of the Office of the Comptroller; to have been disturbed, as have many others, in the several but persistent rumors that the Secretary of the Treasury is soon to resign, and urges that an Acting Comptroller be appointed who will cooperate with the Secretary of the Treasury in cleaning up the situation.

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That feeling of uncertainty as to what lies ahead seems to be very general among national bank examiners. After all, they are, from the Chief National Bank Examiner down, responsible to the Comptroller of the Currency and removable by him. It is a little risky to place full trust and confidence in a Secretary of the Treasury who, so far as they are able to guess from current rumors, may not be long in the position to protect them--in any event they feel probably not beyond 1940.

The Office needs a Comptroller who does not have political ambitions, who does not want to build up a personal following or make the office a refuge for his friends, or an Acting Comptroller who does not have ambitions to be Comptroller or to gain other political advantage, but who both are willing to devote 48 hours a day to hard work in making the supervision of national banks outstanding in its excellence. The tough job of reorganizing the work of the Bureau presents a real opportunity. Unless it is done and done promptly, serious reflections are going to be cast on the Office of the Comptroller and upon the Office of the Secretary of the Treasury as well.

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*Reform*

## EXHIBIT III

September 8, 1938

A program to be followed by Bank of America, National Trust & Savings Association, San Francisco, California.

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1. The dividend rate of 19.2% should be reduced to an annual rate not exceeding 6%.

The last report of examination of the bank shows a ratio of \$1 of sound capital to \$12.79 deposits. Furthermore, the bank is carrying in its assets a very large concentration of highly undesirable obligations represented by loans and contracts to Transamerica Corporation and its affiliates amounting to \$74,000,000, which amount includes approximately \$41,000,000 unsatisfactory contracts of the California Lands, Inc. and the Capital Company, which actually represent other real estate acquired by the bank at the time of foreclosure of mortgages.

The bank also carries in its assets \$6,000,000 of German credits and numerous other items of extremely doubtful value.

The reports show that from 1930 to June 30 of this year inclusive, the net earnings of the bank amounted to \$47,285,016.74 and during this period the bank paid out in dividends \$47,400,000 and the records show the dividend rate paid by the bank since 1933 has been increased each year from a rate of 4.5% to 19.2%.

The reduction in the dividend rate as outlined above would give the bank an additional amount of \$6,600,000 annually for the purpose of eliminating losses and reducing the book value of assets of unknown or questionable value and in addition to improving the asset condition of the institution will serve to increase its ratio of sound capital to deposits.

2. Losses estimated by the national bank examiners at the time of each semi-annual examination are to be charged off promptly upon receipt of reports.

The bank will be furnished with a copy of the report of an examination within a few days showing approximately \$9,000,000 estimated losses.

3. The practice of transferring the bank's other real estate to the California Lands, Inc. and Capital Company and substituting therefor the form of contract in use at this time should be discontinued.

Page 2....

It is understood that the bank has in the recent past changed the contracts which it accepts from both of the companies named, which now provide that the title to the real estate will remain in the name of the bank; no down payment to be made; no payments to be made within the first two years; 10% to be paid annually thereafter; the bank paying the taxes and insurance and it is not believed, therefore, to be a bona fide sale by the bank of its other real estate.

The bank also carries in its bonds and securities account stock of the Merchants National Realty Corporation, in the amount of \$19,332,000, which includes approximately \$6,000,000 of other real estate, which should be eliminated from the account and properly shown as other real estate.

As the result of such unusual and objectionable practices the bank carries on its books and reports in its published reports of condition approximately \$2,000,000 in other real estate, when as a matter of fact it has approximately \$49,000,000 in other real estate. This condition is caused largely by the form of contract accepted from the companies referred to.

In addition to correcting these existing matters, care should be exercised by the management in the future to carry assets on its books in the proper account in order that published reports of condition may be correct.

4. There should be very little, if any, further expansion of this bank by way of establishing additional branches until its condition has been materially improved.

Marobert  
W. J. Folger

September 12, 1938

In the middle of the afternoon Mr. Morgenthau called me on the telephone from the farm and asked me to arrange for myself and Mr. Prentiss to be at his house at 8:30 p.m.

Shortly after the Secretary's telephone conversation with me, Mr. Diggs informed me that they had ascertained by telephone to San Francisco that the board of directors of the Bank of America, N.T. & S.A. is meeting tomorrow and that the chances are they will declare a dividend for the second half of 1938. He and Mr. Folger were preparing a wire to the examiner in Los Angeles, where the meeting is to be held with respect to dividend action. He suggested that I take a copy and show it to the Secretary, which I did.

Pursuant to the request of the Secretary and his telephone conversation, I asked Mr. Cairns to be prepared tomorrow morning with a memorandum as to whether or not the Secretary could show confidential information on the Office of the Comptroller to men such as Tom K. Smith, Jeff Coolidge and Robert M. Hanes.

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I also informed Mr. Cairns that I thought the Secretary might want in the morning a memorandum on the authority, if any, of the Comptroller of the Currency or the Secretary of the Treasury to prevent a national bank from declaring or paying a dividend.

About quarter of six Mr. Diggs showed me the proposed telegram which he had prepared for transmission to the examiner in Los Angeles. I told him that I thought it might be made a good deal stronger.

When I showed the telegram to Mr. Morgenthau at 8:30 his first reaction was that they should be told not to pay any dividend at all.

Mr. Prentiss came and told Mr. Morgenthau that he had verbally made recommendations to Mr. Folger for a reorganization of his staff, and that he would have it in writing by tomorrow at five o'clock and would give me a copy for the Secretary.

Mr. Prentiss' idea is that five or six of the ace bank examiners from all parts of the United States should be concentrated in California to do the job there. He said that there is a very real banking problem on the Coast, that he has been studying it ever since he got there and

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has been trying to clean the situation up. It is very confused and the fact that there are so many affiliates of the Bank of America makes it tremendously difficult. Not all his bank examiners are qualified and he would like to have some of them transferred out of the District. Mr. Prentiss emphasized the necessity for Washington backing for his decisions and complained that every time the examiners have had a controversy with the Bank of America, the officers of the Bank have been able to go over their heads to the Comptroller in Washington.

Mr. Prentiss expressed his 100% approval of the idea of advising the directors of the Bank of America that they must not declare a dividend tomorrow. He offered full cooperation to the Secretary so far as his office is concerned.

Mr. Prentiss referred briefly to the situation in the Anglo California National Bank but the Secretary said he was not prepared to go into that in real fashion until the Bank of America situation was moved forward some.

Mr. Morgenthau talked on the telephone to the President of the United States at 9:50 p.m. and told him that we

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proposed to send a telegram tomorrow recommending that the Bank of America reduce the dividends from a rate of 19.2% to 6%. The President replied "19%? Repeat that! My God! Why let them pay anything?" Mr. Morgenthau explained that the reason for the recommendation is that we feel that it is the only way to conserve their capital, that there are a good many losses in the bank. The President asked why any dividends should be declared if that is the situation, and Mr. Morgenthau replied that we feel maybe this recommendation restricting it to the third quarter only, rather than covering the entire second half of the year, will permit us to decide better what to do after we have gone into the situation further. He said we are not sure that the directors would agree to even this. The President was very emphatic that we should go ahead and clean up the situation. Mr. Morgenthau also told him that we are looking into the Anglo California National Bank and that a preliminary look makes it appear that perhaps the situation there is even worse in some respects.

The President said he was 100% back of us.

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Following that, Mr. Upham called Mr. Diggs on the telephone and told him that Mr. Morgenthau had two suggestions with respect to his telegram. First, that the directors of the Bank be advised that if they declare any dividend tomorrow, it should be for one quarter only; and second, that the telegram should be made just as strong as the Comptroller's legal counsel would permit.

Mr. Diggs said that there was a law or regulation which prevented the declaration of quarterly dividends.

Mr. Morgenthau then talked to Mr. Diggs advising him that he had placed the situation before the President of the United States and that he, as well as the Secretary himself, was prepared to give Mr. Diggs all the backing he needed.

Upm

September 12, 1938

For the Secretary:

While I have devoted a great deal of thought to the possibilities of unification of the Federal agencies having bank supervisory powers, I have concluded that the internal problems of the Comptroller's Office are more pressing than is the matter of consolidation or coordination of the three agencies. A properly functioning Comptroller's Office will automatically provide for coordination and cooperation. Emphasis must be put upon developing a spirit of united front among the three agencies rather than preserving and protecting their individual "national honors." But internal house cleaning should come first.

I am convinced that the major part of the difficulty centers in Washington. The examiner, for instance, who examines Bank of America, N.T. & S.A. and Anglo California National Bank does an excellent job. Even in the face of repeated discouragements in the form of inactions and vacillations in Washington, he continues pressing for action along the same lines.

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In the Washington office there seems to have developed something of the attitude that it is hopeless to try to get anything done. Letters go unanswered, the file is unkempt, the record is incomplete,--nothing much in the way of a firm hand by responsible officials has been displayed, and few really believe that there will be any change.

Bankers and examiners in the field have legitimate complaints, it seems to me. Even the Bank of America, N.T. & S.A., it seems to me, has not been given in many cases the treatment which it should have a right to expect. In other instances they have been pandered to and fawned on in equally indefensible fashion. Other bankers find it impossible to get replies to their letters. Washington appears repeatedly reluctant to make up its mind. There is little consultation with the Federal Reserve and FDIC, and sometimes conflicting opinions are given, all to the bankers' bewilderment.

As an example of how weak the office is in dealing with the Bank of America, N.T. & S.A., for instance, the case of the so-called German credits may be noted. The bank employs an expert on these credits, and follows carefully,

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at home and abroad, their status. The attitude of the bank as to their value is based largely on a false optimism, but they know more about the credits than the Comptroller does. Surely someone at the Federal Reserve Board, or at the New York bank, or in Treasury Research and Statistics, is an expert on the German credits, and their help should be available when needed. Or else the Comptroller should have a sizeable economic staff of his own.

When a bank is both big and bad, it should have one capable man in the Washington office assigned to it exclusively. I think there should be one man now whose whole time would be devoted to Bank of America, N.T. & S.A., who would know all about it and have it in such form that arguments as to facts can be reduced to definiteness. The same should be the case for Anglo California National Bank until that situation has been cleared up.

As an example, I have tried to get information several times about the time Bank of America, N.T. & S.A. declares dividends, and covering what period. No one ever seems to know--it is not revealed in the examination report or in the correspondence file. There is always the greatest vagueness about it. There ought to be a man who knows--as well as he knows his ABC's.

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Because the situation in these banks is of concern to the Federal Reserve and the FDIC, I would favor having one man in each of those agencies assigned almost exclusively to these two banks, also. Instead, there seems to be an attitude that it is the Comptroller's God-given right to have exclusive jurisdiction, and even cooperative and friendly interest by the other agencies is resented.

There is some pretty good personnel in the office which could be organized into an effective working force if properly directed. But there is need for a good deal of prodding and reassurances that effort will be backed up by action.

The present staff should not be blamed too much. They have been badly let down too often. The present Acting Comptroller should not be given all the blame. He inherited a bad situation and probably didn't fully realize it until recently. He didn't know that his job was a working job. He assumed that the office would run itself while he took care of other interests. It was to have been expected that such would be his attitude. Even if disposed to work at the job, I doubt his competence, but even so, he should not be too greatly blamed.

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The Chief National Bank Examiner deserves great credit. He also deserves and needs support (and some pressure and direction) from above and help from below. Office methods, office files, etc. need revision and reorganization. The office suffers, I believe, from a mistaken program of economy instituted by the former Comptroller. It should be noted that the funds available for the office are extremely skimpy as compared to the FDIC. Better salaries are paid by FDIC to examiners and other employees. But even so, that is not a fatal defect, and could be overcome by excellence of performance at the top.

The program which I think should be instituted would include the following as a start:

- (1) The development of a small banking research staff.
- (2) The creation of two (or three) posts of Assistant to the Comptroller.
- (3) The reestablishment of the office of Chief Examiner for the Fifth Federal Reserve District. This was abolished as an economy measure and the post merged with that of Chief National Bank Examiner. He has enough to do without it. Moreover, it results in a silly situation: As Chief



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these lines. A spirit of fairness, of firmness, of impartiality, of objectivity, of counsel rather than partnership in management of banks, must permeate the force from the top.

(8) Fraternizing with bankers in wholesale fashion, too much convention sociability, and acceptance of favors from bankers, should be discouraged. Especially, speech-making should be reduced or eliminated. Work should replace it for a time at least. We do not need a new business department.

(9) The handling of the affairs of insolvent banks might well be consolidated in the FDIC.--

(10) Further uniformity in the form of various reports used by the three agencies should be achieved.

(11) The Acting Comptroller should personally read the confidential section in every examination report, when first received.

(12). We should arrange a united front with Federal Reserve, FDIC, and RFC to do nothing for any of Giannini's outfits, in the meantime.

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(13) There should be an immediate intensification of activity by both Comptroller and Federal Reserve in examining affiliates. I am confident both agencies could press much harder than they do.

Upm

September 12, 1938

For the Secretary:

On the other hand--I am told that the President will depend in 1940 upon a man named Elliott for the control of the California delegation in the Democratic national convention. It is claimed that the only man who can control Elliott is Giannini. Thus, it is argued Mr. Giannini will have great influence with the President, and it is hinted he may make a visit to the White House before long.

I am confident that if the President knew the facts about the banking situation, he would not permit political considerations to enter into the decision in any way.

Upm

September 12, 1938

For the Secretary:

Mr. Taylor got the impression from my memorandum of September 8th, which I read in your office on September 9th, that I had known for some time of the situation existing in the Anglo California National Bank. I want to be sure that you do not have that impression. I have explained the facts to him.

The first knowledge I had of that situation was on Wednesday, September 7th, when Mr. Prentiss, Chief National Bank Examiner for the Twelfth District, mentioned it in my office. I put it in my memorandum the following day, but transmission to you was postponed until the conference in your office on the following day.

After being informed of this situation by Mr. Prentiss, I learned that a good many other people knew about the situation, and that it has come to the attention of a good many people partly by reason of the fact that suits have been brought against the president of the bank and he has been found guilty of using trusteed funds for his private benefit and advantage.

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The reports of examination of national banks are very closely guarded and it was only after getting explicit authority from the Secretary of the Treasury that I was permitted to have access to the reports of the Bank of America, N.T. & S.A. Since that time, I do not suppose I have seen the reports of a half dozen banks and then only when it was necessary in connection with some matter of subscription to preferred stock. Now that I have seen the reports on the two banks in California, I do not wonder that there was the greatest reluctance to permit inspection by someone outside of the Office of the Comptroller.

Upm



September 12, 1938

For the Secretary:

Mr. Gibbons told me today that Mr. O'Connor told Mr. Farley that the Secretary of the Treasury is eager to have him back as Comptroller.

Upm

September 13, 1938

Before the 9:30 meeting, HM, Jr called in Mr. Hanes and the following is a record of their conversation:

HM, Jr: At 9:45 I have to start in on one of the most difficult things I have ever had to handle -- the Bank of America of California. Nobody can be more short-handed than I am at this time.

You are not hooked up in any way with the Bank of America?

Mr. Hanes: No, I am not at all.

HM, Jr: That's fine, because I would like you to sit in at these meetings, because as this thing unfolds itself, S.E.C. will have to come into the picture and I am sure you will be of great help.

What I am going to do is send the Bank of America a telegram not to declare any dividend. They are holding a meeting in San Francisco today. We don't know whether they will carry out the orders of the Comptroller's Office, but by issuing the order we will know where we stand. It is the dividend of the Bank of America which is the "meat and drink" of Transamerica. I have been trying to do this for six months and have been unable to do it because J. F. T. O'Connor would not do it.

What we are proposing to do is the recommendation of the Comptroller's Office. I talked to the President about this, last night, and he gave me a clearance to go ahead.

## RE BANK OF AMERICA SITUATION

September 13, 1938.  
9:50 a.m.

Present: Mr. Oliphant  
Mr. Hanes  
Mr. Upham  
Mr. Gaston  
Mr. Graves  
Mr. Diggs  
Mr. Folger  
Mrs Klotz

- H.M.Jr: Now, what I want to do is - some of you are up-to-date and some of you are not. Harold, you get the thing as we go along while you're here, see?
- Graves: Yes, sir.
- H.M.Jr: But I want you to - you're here as my strong-arm squad.
- Graves: Yes.
- H.M.Jr: And give me your support. With Mac away I need you, see?
- Graves: Yes, sir.
- H.M.Jr: This thing - I haven't got all my dates, see, but some time, I would say - was it last March that we first talked about the dividends of Bank of America?
- Upham: Well, it was certainly that long ago. It was certainly that long ago.
- H.M.Jr: Now, this situation - I don't want to be too dramatic or anything, but I consider it the most vicious, dangerous financial element in America, and up to now - and I'm talking about Mr. Giannini and his affiliates - up to now I've been unable to cope with it, or rather, I haven't - take that back - the President's appointees have been unable to cope with it, and that goes for FDIC, Federal Reserve, and the Comptroller's office.
- (Upham)
- Now, last Friday or Thursday, this fellow brings to me a lot of stuff about the Bank of America, and I get - within 24 hours I get the Acting Comptroller in and I say, "Now, you and the Chief Bank Examiner give me in

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writing your recommendations." Which they do. Then I say to them, "Take this bag and come back to me this morning and give me the time table, how long would it take you to put it into effect?" And amongst those three or four recommendations are that their dividend should be reduced in order to conserve their assets, because they earn 49 million dollars roughly over - how long a period?

- Upham: Well, that's - that's a period of about ten years that their earnings, after losses and write-offs, have been about 49 million, and paid-out dividends have been 49 million.
- H.M.Jr: Well, the most recent thing - I mean how recent is our report? The first six months of this year?
- Upham: Yes. Well, that report isn't in yet.
- H.M.Jr: It's made.
- Upham: That report will be in within a few days.
- H.M.Jr: Well, are they or are they not paying all their earnings out in dividends?
- Upham: Currently they are paying out practically all of their earnings, that's right.
- H.M.Jr: And I won't go into all of the losses, but unrealized losses are something tremendous, is that right?
- Upham: Yes, they have a great many losses that they pay no attention to.
- H.M.Jr: Now, the Comptroller at six o'clock last night finds they have a meeting at noon today in Los Angeles at which they vote a dividend for the next six months. That's why I've got so little time to act - from now till noon Los Angeles time. And this fellow Giannini has just balked at every attempt on the part of the Comptroller to do anything. He just doesn't do it, that's all. And then on top of that we have Mr. Stewart, who owes the Giannini interests how much money?
- Upham: Oh, I should think probably now around six or seven million dollars.

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- H.M.Jr: Chairman of the Federal Reserve Board of that district and he owes Giannini six or seven million dollars. And incidentally, the chairmen of the boards have all been wiped out; they don't have chairmen of the boards, the Federal Reserve, except in California.
- Upham: Oh no, they have a chairman everywhere.
- H.M.Jr: I thought they don't have a chairman and a president.
- Upham: They have both. They tried to get rid of the office of chairman, but they didn't succeed.
- H.M.Jr: Could they do it here if they wanted to?
- Upham: No, that would take legislation. Marriner wanted that but didn't get it.
- Oliphant: You mean take legislation to abolish the office.
- Upham: Yes.
- H.M.Jr: But you've got the picture of Mr. Stewart sitting there, owing the Giannini interests millions, and he sits there as chairman of the Federal Reserve Board, and we talk about doing away with the affiliates, and he's got his man as chairman of the Federal Reserve Board of the West Coast.
- Now, last night, the Acting Comptroller gives to Upham a piece of paper in which he is proposing to send out a telegram this morning telling these fellows that they should put their dividends on an annual basis of six percent of the value of their capital stock. Is that right?
- Upham: Yes, it is to be reduced.
- H.M.Jr: And they have been paying at the rate of 19 percent plus, and under the law they have to declare their dividends semi-annually, see? So for the first six months this year they have paid at the rate of 19 percent plus, and in the telegram he suggested that they put their dividends on the basis of six percent annually. And my first reaction is, "Well, if they pay - if their losses are - their unrealized losses are greater than that, why pay any dividend?"

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Well, knowing of the terrific political power of this fellow - and also my responsibility in this thing is very sketchy - I mean most of the authority of the Comptroller flows from the President to him, doesn't it?

Olyphant: (Nods no)

H.A.Jr: Me?

Olyphant: (Nods yes)

H.A.Jr: Well, that's all the better. Fine, that makes it all the better.

I called up the President of the United States, got him on the phone eight minutes after he left Jimmy. We talked about Jimmy, and he's coming along fine. I told the President we were proposing to send out this telegram, and he shrieked, "Nineteen percent!" He said, "Why declare any dividend?" So I said, "Well, Mr. President, I want to go ahead with this thing and I want to be sure I've got your entire backing." And he said, "Of course you have. Of course you have. And do whatever you think is right, clean this situation up."

And then I also told him that we only just Friday got the first notice that the Anglo-California Bank may be even in worse shape. I mean not on a total but on a percentage - I mean for their capital they most likely are in worse shape, because that picture is - the report is here - the Chief Examiner for the district brings it here unsigned, afraid to deliver it to the bank, for fear Mr. Stewart, Chairman of the Federal Reserve, will get hold of it. And I haven't had it all yet, but just a little peek; it's about as bad a thing as is possible.

Now the unfortunate thing is that in both Mr. O'Connor and Mr. Diggs and Mr. Leo Crowley we have extremely weak sisters; they won't take responsibility and they haven't - I mean this thing has all grown up under O'Connor. And what I want - at 10 o'clock Diggs comes in, and Fol- ....

Upham: Folger.

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- H.M.Jr: Folger, Chief of Bank Examiners. And we'll go over their suggested telegram this morning. And at 10:30 I've invited Mr. Ransom and Mr. Crowley in.
- Oliphant: Where is Eccles?
- H.M.Jr: Eccles isn't here. Because I want to say, "Now, gentlemen, we're going to do this, and I want to know whether I've got your hundred percent backing; this must be the united front of Washington." And I told Mr. Diggs over the phone last night, "Make this telegram as strong as your counsel will permit you to, so that if by any chance he should refuse to do it, you've got the best possible kind of a case. But make it just as strong as your counsel will let you do it, see, so that if the Board of Directors of the Bank of America of California turns the Comptroller down, we want to be in a position to know where we jump from there." Huh?
- Oliphant: Well, if you're going to go into it as I think under the statute you must, then I want to take a look at that telegram.
- H.M.Jr: Well, you can look at it in two minutes.
- Oliphant: I mean from now on I'm going to handle your part of the legal work. Remember that old squabble we had about the Comptroller's office, the legal shops.
- H.M.Jr: What do you mean from now on you're going to handle it? For me or for you?
- Oliphant: For you.
- H.M.Jr: Well, you always handle it.
- Oliphant: I mean in this.
- H.M.Jr: Well, you handle anything that I do. Your job is, after I've done the thing, to see I don't go to jail.
- Oliphant: No, it's the other way around.
- H.M.Jr: That's the lawyer's idea. This is my idea. After I've done it, you're to keep me out of jail. But the

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Comptroller's office is ready to act. And after we see what happens, then I want Hanes - I mean I want him to soak this thing up, and after he's soaked it up and we wait and see what happens, then we'll take it up with the S.E.C. and find out what, if anything, they've done with their report and investigation of Trans-America, which must be at least three months or four or five months old. But I don't want to do anything today, because I don't want it subsequently said that, well, I was persecuting, see?

So we'll do this first, then wait and see what action they take today and then maybe tomorrow you (Hanes) could officially ask S.E.C., "What is the status of your investigation of Trans-America?" See?

Hanes: (Nods yes)

Upham: We've checked on that from time to time.

H.M.Jr: Now, the reason my friend, Harold, is here is that if what Upham says is true, about the organization of the Comptroller's Office, and I have no doubt it is true, and I've got to step in and run this blankety-blank shop, I want the best fellow on organization in Government, which is Mr. Harold Graves, and if we've got to go in there and reorganize the Comptroller's Office, why, whatever you are doing, you'll just have to let that slide and step in here, and I don't yet know how much this is my responsibility, but certainly.....

Oliphant: I am .....

H.M.Jr: Certainly, going in as far as I have, I want an Act drawn which is going to make either the Comptroller's Office a responsibility, an integral part of the Secretary of the Treasury, or kick him out on the street. Now I want to know where I am, Mr. Oliphant.

Oliphant: Well, I am loaded on that, and I think it is pretty clear on that already. I am ready to state what your duties are whenever you want.

H.M.Jr: Well, your job, and everybody in this room - I am moving, and I am going to move terribly fast. If anybody disagrees - thinks I am going to make a mistake, or wants to argue, please talk up.

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- Gaston: Have you considered what the effect is going to be? Suppose the Bank of America Board accedes and cuts down, or passes wholly the dividend, of course that will be a matter of public notice. Now what is it going to do to the banks in California?
- H.M.Jr: I think it may save them.
- Gaston: Will there be a run on the Bank of America branches?
- H.M.Jr: If it occurs we've got to be prepared to handle it, but I mean, the fact - if a person is sick and it is a question of operating to save, of course you always take the risk of killing the patient, but I don't think that you can - certainly the country is in shape to have one-twelfth of a Federal Reserve District go sour, and the longer we wait, the stronger the man gets.
- Gaston: I am not disagreeing, I am just wondering what is going to happen and whether we are going to be prepared to handle it when it does happen.
- H.M.Jr: That is why, from four o'clock on this morning, I didn't sleep.
- Oliphant: Giannini's deposit liabilities - how many times his capital?
- Upham: Oh, little better than two; two and a quarter, perhaps.
- H.M.Jr: Well, now, look. You fellows don't frighten me, see, because on that basis you never would go into a bank.
- Upham: Well, I think the answer to Mr. Gaston is that the situation couldn't be any worse than it is at present. Anything would be better than letting it go on.
- Gaston: But we probably will have a run.
- Upham: Might.
- H.M.Jr: And the reason you are sitting there, Mr. Gaston, is because you have the full background, and can assist me in the public relations.
- Gaston: Right.

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- H.M.Jr: I didn't sleep a wink from four o'clock this morning, on.
- Oliphant: Well, we are all agreed we want/<sup>to</sup>clean it up.
- H.M.Jr: If the New Deal means anything, then I say a man like Giannini, and what he stands for, should be put out of business. Now for five years that fellow has run hog wild, high wide and handsome, and it is just time that somebody in this place had guts enough to say to that fellow, "No," and I've got to do it; I've got to be the fellow. He is the most dangerous fellow in America, financially. There's nobody - you know the old ten per cent of the National City Bank.
- Hanes: Yes.
- H.M.Jr: He's got this big insurance company now, and if the New Deal stands for anything - anything in financial ethics at all, I mean, here is a chance for those of us who believe in decent finance and an ethical way of conducting business to step in, but it takes backbone; it takes guts. I mean, I think.....
- Oliphant: You want them to come in now?  
(Mr. Folger and Mr. Diggs come in.)
- H.M.Jr: Good morning, gentlemen. You know everybody here. You know Mr. Hanes, Mr. Diggs, Mr. Folger. You know Harold Graves - all members of my club.  
Well, what's your suggestion this morning, Mr. Acting Comptroller?
- Diggs: Well, we've revised the telegram as presented to you last night. Shall I read it, sir?
- H.M.Jr: If you please.
- Diggs: This is to our Examiner in Charge of the Los Angeles District: "You are instructed to personally advise the Board of Directors of the Bank of America, National Trust and Savings Bank, San Francisco, California, who are meeting there today, Tuesday, the following: 'In view of the unsatisfactory asset condition of the bank, other real estate in excess of forty million dollars, carried in loans

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and discounts and in the securities account, German credits of 6,000,000, other items carried in assets of questionable value and doubtful and losses it is imperative that the earnings be used to write off and reduce book value of such assets. Notwithstanding the condition as outlined above and the fact that the dividend policy has been repeatedly criticized the dividend rate has been repeatedly increased from 4.5% to the present rate of 19.2%. This condition was discussed at length by the Chief Examiner in Washington with the Chairman of your Board in January, and again with the Vice President and Cashier in August of this year. It is the opinion of this office that sound banking practices would not permit the declaration of any dividend until proper provision has been made for criticized assets but in no event should a dividend be declared at this time at a rate in excess of 6% annually."

- Oliphant: Does that purport to be a telegram under the section of the statute authorizing you to warn them?
- Folger: Warning them under Section 30 of the Act?
- Oliphant: Yes.
- Folger: It is the foundation for such warning; it would serve as a warning, I think. Unsafe, unsound practices.
- Oliphant: Do you mind - was it drawn as the warning, the technical statutory warning that would enable you to act, or was it drawn as sort of a preliminary to the warning?
- Folger: Well, I wouldn't say that it is drawn as the warning, no sir.
- Diggs: It is the first definite notice to the Board itself, from this office, outside of the regular examination criticisms that have been made repeatedly since nineteen - since they started declaring .....
- Oliphant: Do you understand the legal side? If they give the statutory warning, then the Comptroller is authorized to certify the officers and directors to the Governors of the Federal Reserve Board. I mean, if they give the warning and they go ahead and do it, then .....

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- H.M.Jr: Well, in other words, they should say - as of under the statute, so-and-so.
- Oliphant: Then the Comptroller is authorized to certify the officers and directors to the Governors of the Federal Reserve Board for removal.
- H.M.Jr: Well, if we are going to do this thing, as I said last night, I want to be in a position that if he says, "No," that our path is perfectly clear as to what we can or can not do, and listening to Mr. Oliphant, I would say that it should be so drafted that the next step ....
- Diggs: ... should be the notice to the Federal Reserve.
- H.M.Jr: Yes sir; yes sir.
- Oliphant: Otherwise, it is scolding that gives you no power.
- H.M.Jr: I don't want to scold; that is just what I don't want.
- Diggs: No, I want it done; I want action.  
How about you, Folger?
- Folger: Yes sir.
- H.M.Jr: Let's stop right here and redictate this thing.
- Oliphant: I'd like a chance to work over it.
- H.M.Jr: How long will it take you?
- Oliphant: It won't take me long, but I don't want to dictate it offhand.
- H.M.Jr: Well, how long?
- Oliphant: Take me thirty minutes, or twenty minutes.
- H.M.Jr: Well, is there much use in going further until we have a statement that we can submit?
- Oliphant: I think it is the nub of it.
- H.M.Jr: I do know - why don't we give Mr. Oliphant a chance, and when you've got something come in, and I'll phone you, how's that?

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Diggs: In the meantime we'll also work on it from our standpoint, as we do it down there.

Oliphant: I want to get hold of your lawyer. Have him come in my office and work with me.

Diggs: All right; fine.

H.M.Jr: Now, before you go, are you with me a hundred per cent, that we want to do it the way Oliphant suggests; that this is a notice and not a scolding?

Diggs: Yes.

H.M.Jr: All right. And I think you will agree that yours is a scolding and not a notice.

Diggs: I think so.

H.M.Jr: Are you (Folger) with us?

Folger: Yes sir.

H.M.Jr: Hundred per cent?

Folger: Yes sir.

H.M.Jr: All right. You want Kelly down there?

Oliphant: Your chief - your head lawyer.

Diggs: Well, Mr. Barse is out of town.

Oliphant: Anyone you want to send.

Diggs: We'll have Mr. Kelly.

H.M.Jr: Well, will you gentlemen, then, as soon as Mr. Oliphant is ready, can I phone you?

Diggs: Yes sir.

H.M.Jr: Fine.

(Mr. Diggs and Mr. Folger leave.)

H.M.Jr: Well, that's that.

Oliphant: Now Stewart, the Governor of the Federal Reserve Board, can remove him.

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H.M.Jr: On what grounds?

Oliphant: For cause.

H.M.Jr: And that cause is..?

Oliphant: Well, I should say, just the status of those accounts.

Upham: Of those, they existed when the Federal Reserve Board here appointed him. Does that make any difference?

H.M.Jr: No.

Oliphant: No.

H.M.Jr: (Laughs) We're singing together, Herman.

Oliphant: You better - that's all right. Here's enough. The statute is very broad. It gives the Board plenty power to remove. It merely says that the Board may remove and then shall send notice of the cause of removal to the officer, so I should say they can remove for any cause that has any rational relation to his conduct as President of the Reserve Bank, or Chairman.

H.M.Jr: Now where do you - where is the information available as to the status of Mr. Stewart's borrowings?

Upham: Well, that would be in the last California report, the last examination report.

H.M.Jr: Could you be getting that in the next twenty minutes, or thirty minutes?

Upham: Surely.

H.M.Jr: What?

Upham: Surely.

H.M.Jr: While Herman is working on the other.

Upham: Surely.

H.M.Jr: Now, who do you want to help you, Herman?

Oliphant: Well, let me.....

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H.M.Jr: All right.

Oliphant: I'll take care of it.

Hanes: Meantime, do you want any of the factual data concerning the stock manipulations between these companies?

H.M.Jr: Well, we've got them all.

Hanes: Have you got all that?

H.M.Jr: Hasn't the S. E. C. got them?

Upham: No, we have one report from them of a preliminary survey they made out in California. But they've got some others.

H.M.Jr: Who are the men they sent out there?

Upham: I forgot their names. Cavanaugh is the man I talked to, and Schenker, I think, was the other.

Hanes: Schenker.

H.M.Jr: What I am thinking of, I mean, do we want to move on Trans-America today? Haven't we got about all we can chew off on this?

Hanes: I just want - wondered if you wanted to get all the factual data. I don't know whether they are important in this case or not.

Upham: I think they are a little reluctant to give us confidential data because they can't have access to the confidential records of the Comptroller.

H.M.Jr: My hunch is, I've got all I can digest on this, with the Board of Directors meeting.

Hanes: Do that afterwards.

H.M.Jr: And when we get .....

Hanes: And also bring to the attention of the Federal Reserve Stewart's condition, you see.

H.M.Jr: What?

Upham: They know all about that. Sedlacek is the Examiner.

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- H.M.Jr: Who?
- Upham: The man who examines the Bank of America. He knows more about it than anybody else.
- H.M.Jr: Tell Mr. Crowley and Mr. Ransom I won't be ready for them until eleven o'clock. They were coming at ten thirty; that I will not be ready for them until eleven. Thank you. That will give you....
- Oliphant: Now you said a little bit ago that if you're moving too fast, you wanted us to speak up.
- H.M.Jr: Speak - yes.
- Oliphant: And I haven't any settled opinion about this; I am just thinking out loud. Everybody has agreed on our objective, that we want to clean up that mess. Now, having agreed on that, we still have the question, which are the best first steps, and in what order do we want to move, and how fast do we want to move in cleaning up the situation? I am just going to suggest the possibilities.
- Your first move might be to clean up the house out there and be sure of your own supervisory force by getting Stewart and his gang out, and then getting the picture that you get with the Federal Reserve System cleaned up out there. That, for instance, is another alternative. It is too quickly to reject all the alternatives.
- H.M.Jr: It's all right. Now we've been fussing with this thing for six to nine months.
- Oliphant: Since February, is the date.
- H.M.Jr: Since February, and it always gets up to the dividend date; then they declare it, and the meat of this coconut is the dividends that he pays, and just as long as he can pull those dividends out, nobody can stop him. I am sorry that they are meeting today. We have so little time, but if we don't do it now, then we're on another six months.
- Oliphant: Now I am going to urge this, that you proceed like lightning to get Stewart out of there, and put a man in there you can trust.
- H.M.Jr: I am going to do that today. I want that for today.

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- Oliphant: That man ought to be out of there today.
- H.M.Jr: I want Ransom - I want Ransom - I want, formally, to give this information to Ransom and when he walks over here, say, "What are you going to do about this?"
- Oliphant: I want another man in there at once, that will protect you.
- H.M.Jr: That's all right. Folger isn't working on that; you get him to do - digging this up, so when Ransom comes over here, say, "Here, Mr. Ransom, here is the financial condition of the Chairman of the Federal Reserve Board of San Francisco. What are you going to do about it?" And I want twenty-four hour service.
- Upham: I think, however, that Mr. Oliphant put his finger on a point when he talks about cleaning our own house, because in the controversy between the Bank of America and the Comptroller's Office, our skirts are far from clear.
- H.M.Jr: All right, but I just want one thing from you, and be very careful in how you are answering. Do you believe that the Bank of America, when they meet at noon today, in Los Angeles, with their financial condition, should or should not declare a dividend?
- Upham: They should not.
- H.M.Jr: Now, that's all I want to know. That's all I want to know. See? That's all I want to know. And I've got awful good reasons. I wish I had a week to act, but if I miss it this time I just might as well pass this thing up.
- Gaston: Excepting, in Mr. Upham's judgment, we ought to revise that telegram to forbid them to declare any dividend until further notice.
- Upham: The Comptroller thinks he has no legal authority to do that.
- H.M.Jr: We are not only taking Mr. Upham's ....., I have a written recommendation signed by the Acting Comptroller, and the Chief Bank Examiner, Folger, recommending this, and it is based on that thing that Mr. Upham placed, plus the information he's got, but the fundamental - the keystone of this is a written

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recommendation from the Acting Comptroller and the Chief Examiner. Right?

Upham: To reduce it from 19.2 to 6 per cent.

Oliphant: Well, if there is justification in reducing it from 19 to 6, you know there is justification for having no dividend.

Upham: Right.

Gaston: What bothers me is that we seem to sanction the payment of a dividend by this bank which we regard as virtually in an insolvent condition.

H.M.Jr: Well, the more I think of it - and I told this last night - and my first reaction - "Why any dividend?" The President's reaction - "Why any dividend?"

Oliphant: Oh, I think clearly it has to be no dividend, when you get into it.

H.M.Jr: I agree with you.

Gaston: If we are saying 6 per cent, we are saying, "Why, it's all right for you to pay a dividend," and it isn't all right.

H.M.Jr: They have paid over nineteen per cent this year to stockholders. The stockholders have got no kick. I am thinking about the depositors. I want to conserve the assets for the depositors. The stockholders - so we are thinking of the depositors, plus the F. D. I. C., and everything else, so I think if we do anything, it makes us a party to their lax management, to say six per cent.

Gaston: Yes. We say they are entitled to pay a dividend, and we do'nt think they are.

H.M.Jr: I think no dividend. That is just this fellow; he can't face anything. I want to keep him until I find out what this responsibility is. I don't want to release him and have him walk out and say, "Let that baby be Morgenthau's."

Go on, Herman.

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Oliphant: Well now, your relation to the Comptroller's Office. The statute provides that .....

H.M.Jr: Go on, Herman.

Oliphant: ... there shall be in the Department of the Treasury ....

Klotz: Excuse me. Want to read this (Paper brought in by Miss Chauncey)?

H.M.Jr: Well - message from Mr. Diggs.

"The Chairman of the Board of the Federal Reserve Bank of San Francisco, owes the Bank of America approximately eight million dollars."

Oliphant: (Laughs) Try to forget that one.

H.M.Jr: I mean, it is - I just - well, if Mr. Ransom doesn't act it is just unbelievable.

John, everybody in this town, with the exception of Henry Morgenthau, Jr., is just scared to death, and he's got this fellow buffaloed; he's got his wires - he's got his lawyers; he's got his money - I'll tell you, when I've got time, about the money he spent in this town - cash. Unbelievable.

Oliphant: Have you got somebody to go in there at once?

H.M.Jr: Well, I don't know the name, but I'll find out.

Upham: The President, I think, is a pretty good man.

Oliphant: We'll have to start with a clean man, and I'd make him Acting, so we can have him at once.

H.M.Jr: Who's the fellow who you know - O'Shaughnessy, or something - they tried to put in as head of the stock exchange at San Francisco?

Hanes: O'Shaughnessy.

H.M.Jr: Is he a good fellow?

Hanes: He was suggested for Commissioner over at S. E. C.

H.M.Jr: Because he is the fellow who hates Giannini's guts, and he's the fellow who tried to stop Giannini from dealing - ruled off Trans-America, didn't he, off the

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San Francisco Board, and on the basis of that, Giannini had him put out of business. Now there is the kind of fellow we want to - O'Shaughnessy, is that right?

Hanes: That's right, yes.

Oliphant: I want to put him - that at least he take it as Acting on a patriotic basis, so he can step right into the office and act.

H.M.Jr: Can you find out - wouldn't that be a good fellow to put in there?

Hanes: I don't know him personally.

H.M.Jr: But you can check. He had the guts enough to rule Trans-America off of the San Francisco Stock Exchange, but they let him deal in the New York one.

Oliphant: I have in mind - I want someone to go in there quickly, as Acting, and, for instance, stop - prevent their stripping of the files - just take charge of that situation. Shall I go on?

H.M.Jr: Sure.

Oliphant: The statute provides that "There shall be in the Department of the Treasury a Bureau charged with the execution of the laws, with relation to the banking, and so forth, the chief officer of which Bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury."

H.M.Jr: Shall do what?

Oliphant: "And shall perform his duties under the general directions of the Secretary of the Treasury." Now taking that language, the way it is being construed, and under the statute, I think the picture is quite clear, that with the possible exception of his quasi-judicial functions, where there is a statute that gives the idea that you can review those, then you are charged with full responsibility for his action, which means that all executive and administrative conduct of the office, the authority flows from him, through you, to the President, and with the authority goes the responsibility, and the Attorney General has had occasion to pass on it, and his view on it is pretty clear! Never faced it before - I

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mean, never pressed it before, but that is the situation.

H.M.Jr: All right. That makes it easier. What else, Herman?

Oliphant: That's all.

H.M.Jr: Well, you go back there and see whether, by eleven o'clock, you can have something for me.

Oliphant: Yes.

H.M.Jr: But I'd rather have you late than.....

Oliphant: Now, I want just to ask Cy, of the people that have worked on the dividend idea, is there anybody that thinks they do have the power?

Upham: I think not.

Oliphant: And the head man up there, now, is Kelly, in the absence of ....

Upham: Yes. Kelly works on this all the time.

H.M.Jr: We'll be waiting for you.

Oliphant: By eleven.

H.M.Jr: Let Delphi speak.

Oliphant: All right.

COMP. OF CURRENCY

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- Acting - Mr. Diggs

10:15 a. m.

Tuesday *Sept 13, 1938*

Following message from Mr. Diggs:

Please remember that the Chairman of the Board of the Federal Reserve Bank of San Francisco owes the Bank of America approximately \$8,000,000.

nmc