Book 355

Bank of America

Sherbondy Chronology
September 1938 - May 1939

CHRONOLOGY OF EVENTS

RELATIVE TO

THE BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

FROM SEPTEMBER 1938 TO MAY 1939

* * * *

Prepared by

DONALD J. SHERBONDY

May 12, 1939.

(Continuance of a similar memorandum prepared in September 1938)

Note: Mr. Foley gave this to Mr Haas
10:30 am on 5/15/39.

24. September 13, 1938 - Mr. Oliphant's opinion to the Secretary, advising that the Secretary had authority to call in an official of a national bank ("Tom" Smith), or some other appropriate person, and divulge to him "confidential" information in the office of the Comptroller of the Currency, for the purpose of asking his advice.

25. September 13, 1938 - Letter from Deputy Comptroller Gough to Mr. A. P. Giannini, Chairman of the Board of Directors of the Bank of America, in reply to Mr. Giannini's letter of May 6, 1938, which criticized numerous parts of the report of examination of the Bank, completed April 20, 1938. Answered criticisms and requested that letter be read to the board of directors and recorded in the minutes. If not so read and recorded, a copy of the letter would be mailed to each director.

26. September 13, 1938 - Telegram from Acting Comptroller Diggs to R. E. A. Palmer, National Bank Examiner at Los Angeles, instructing him to advise the meeting of the board of directors of the Bank that the declaration of any dividend at that time, without proper provision for criticized assets, would constitute an unsafe and unsound practice and the Bank, its officers and directors, were warned to discontinue such practice.

27. September 15, 1938 - Letter from Mr. A. P. Giannini to Acting Comptroller Diggs, expressing surprise at telegram read by National Bank Examiner Palmer to the board of directors and asking for the withdrawal of the statement in the telegram that the assets of the Bank were an unsatisfactory condition. If this were not done, he requested that the management of the Bank be summoned before the Federal Reserve Board for hearing.

28. September 16, 1938 - Letter from National Bank Examiner Palmer to Acting Comptroller Diggs, advising that he had read the telegram to the board of directors at its meeting on September 13, 1938.

29. September 20, 1938 - Telegram from Mr. L. M. Giannini, President of the Bank, to Acting Comptroller Diggs, advising that on the same date he had telegraphed the Federal Reserve Board requesting a hearing on the issues raised.

30. September 21, 1938 - Memorandum from Mr. Barse, General Counsel for the Comptroller's Office, to Mr. Oliphant, advising of discussions between him and Mr. Charles W. Collins, a former Deputy Comptroller of the Currency and one of the local counsel for the Bank. Mr. Collins had stated that, after talking with Mr. L. M. Giannini by telephone, Mr. Giannini had indicated that he would be glad to consider settling the matters in issue without going to the Federal Reserve Board, and had authorized Mr. Collins to advise the Federal Reserve Board that the telegram requesting a hearing could be ignored.

31. September 21, 1938 - Memorandum from Mr. Barse to Mr. Oliphant, advising of a further conference with Mr. Collins in which Mr. Collins indicated that the controversy with the Bank could be satisfactorily settled and that the Federal Reserve Board had no jurisdiction in the matter unless a certificate were filed with the Board by the Comptroller requesting the removal of officers or directors of the Bank.

32. September 23, 1938 - Letter from Acting Comptroller Diggs to the Board of Directors of the Bank, discussing the report of examination of the Bank, completed September 15, 1938. Advised that nothing in the letter altered in any way the comments in the telegram of September 13 in respect of the payment of the dividend.

33. September 23, 1938 - Letter from Acting Comptroller Diggs to each director of the Bank advising of the personal liability of directors for damages resulting from violations of the national banking laws, and enclosing a copy of Mr. Digg's letter of the same date (above) discussing the report of examination of the Bank.

34. September 30, 1938 - Memorandum from Mr. Oliphant to Mr. Upham, advising that the telegram of September 13, 1938, which was read to the Board of Directors of the Bank, constituted a sufficient warning to serve as a basis for certifying the facts with reference to the declaration of the dividend to the Board of Governors of the Federal Reserve System under section 30 of the Banking Act of 1933. New general letter of warning sent to the Directors of the Bank should treat the telegram of September 13, 1938 as a warning with reference to the declaration of the dividend.

35. October 11, 1938 - Letter, and enclosures, to the Comptroller of the Currency signed by 20 members of the board of the Bank.

Strongly criticized the procedure of the Comptroller's Office in sending critical communications concerning the Bank to individual directors rather than to the board as a unit. Such procedure advised persons not connected with the Bank of the criticisms. Indicated that press releases announcing the dividend had been issued before the telegram by the Acting Comptroller was read to the board of directors. Disagreed with the criticisms in Mr. Diggs' letter of September 23 (above).

36. <u>October 15, 1938</u> - Letter to the Comptroller from the Secretary of the board of directors of the Bank transmitting the above letter of October 11, signed by individual Bank directors, and advising that that letter was signed by all directors present at the meeting except Mr. A. P. Giannini and Mr. Joseph M. Schenck. Mr. Schenck resigned as a director on October 10, 1938.

37. <u>October 20, 1938</u> - Mr. Upham's memorandum of a personal call at his office by Mr. Charles W. Collins, local counsel for the Bank. Mr. Collins indicated that he thought a conference with representatives of the Bank could settle all issues although he was not authorized to request such a conference. Mr. Upham advised him that the board of directors had appointed a committee to consider the letter of criticism from the Comptroller's Office, dated September 23 (above).

38. <u>October 27, 1938</u> - Letter from Mr. Eccles to the Secretary transmitting a memorandum concerning the procedure to remove bank directors under section 30 of the Banking Act of 1933. Mr. Eccles indicated that it would be a mistake to proceed under section 30 because of the possible delay and complicated procedure.

39. <u>October 29, 1938</u> - Letter from Mr. Russell G. Smith, Vice President and Cashier of the Bank, to the Comptroller discussing certain items in the report of examination completed September 15, 1938.

40. <u>November 2, 1938</u> - Letter from the Secretary to Mr. Eccles advising that the memorandum with Mr. Eccles' letter of October 27, 1938 (above) had been referred to the Comptroller of the Currency.

41. <u>November 5, 1938</u> - Memorandum from Mr. Duffield to the Secretary advising of Mr. Duffield's meeting with representatives of the Federal Reserve Board to discuss their activities in the

Transamerica matter. Although the Board had warned Transamerica, the corporation had not complied with the Board's requirement that it either (1) cease to be a bank holding company, or (2) divest itself of all interest in securities companies. If no plan were presented by November 29, the vice-president of the San Francisco Reserve bank had been instructed to investigate and report to the Board.

42. November 10, 1938 - Letter from Mr. Hanes to Mr. Douglas requesting a copy of the S.E.C. report on Transamerica which was laid before the S.E.C. on November 8.

43. November 12, 1938 - Memorandum from Mr. Duffield to the Secretary, suggesting coordinated action of all three banking agencies. Federal Deposit Insurance Corporation should take the first step to terminate the Bank's insurance and the Federal Reserve should take the first step to remove the Bank from the System. If the section 30 proceeding by Comptroller to remove directors were successful the proceedings by the Federal Deposit Insurance Corporation and the Federal Reserve could be dropped.

44. November 14, 1938 - Letter from Mr. Eccles to the Comptroller in which he advised that in transmitting his memorandum to the Secretary he was not questioning the availability of a section 30 remedy or that the responsibility for determining the procedure thereunder rested with the Comptroller. The question of procedure could be worked out by calling together the legal and technical staff. Board was ready to cooperate fully.

45. November 17, 1938 - Letter from Mr. Douglas to Mr. Hanes in reply to Mr. Hanes' letter of November 10, and enclosing a copy of the S.E.C. report on Transamerica.

46. November 17, 1938 - Letter from Mr. Douglas to the Secretary, requesting copies of the reports of examination of the Bank of America from 1931 to 1938, inclusive, for inspection and use in any public hearing authorized by the S.E.C. to determine whether Transamerica has failed to comply with the provisions of the S.E.C. Act of 1934.

47. November 19, 1938 - Letter from the Secretary to Mr. Douglas, attaching "for the confidential use of the Securities and Exchange Commission the examiner's reports requested on condition, however, that none of the material in those reports will be used in any public hearing without first obtaining my approval in writing".

48. November 19, 1938 - Memorandum of conference in Mr. Upham's office between Mr. Rogge, Assistant General Counsel for the S.E.C., and Messrs. Upham, Foley, Duffield, and Sherbondy. Mr. Rogge pointed out that eventually some of the information in the reports of examination of the Bank would have to be made public. It was agreed that there would be a further exchange of correspondence in which the S.E.C. would list the portions of the reports which it would need to make public. Mr. Rogge saw no necessity for any remarks in the S.E.C. proceeding which would imply insolvency of the Bank.

49. November 22, 1938 - Order of the S.E.C. in the proceedings to suspend or withdraw the stock of Transamerica from national securities exchanges.

50. November 23, 1938 - Opinion from Mr. Oliphant to the Secretary, advising that the Secretary could make available to the S.E.C. information contained in reports of examination of a national bank, which information the Commission contemplated using in a public hearing in proceedings to suspend or withdraw the registration of certain securities.

51. November 23, 1938 - Letter from Mr. Douglas to the Secretary, attaching a copy of the Commission's proposed Order and requesting the Secretary's "consent to make public official use, as part of the proposed proceedings, of such of the information obtained from these twenty-five reports as bears on the allegations contained in the proposed order or amendments thereof".

52. November 23, 1938 - Letter from the Secretary to Mr. Douglas, consenting to the "public official use" of the information in the reports bearing on the allegations in the S.E.C. order.

53. November 23, 1938 - Letter from Mr. Delano to the Board of Directors of the Bank of America advising that the Comptroller's office would be pleased to comply with the request in the letter of October 11 from the Bank for a meeting with the management of the Bank, at any time the management might care to come to Washington. Advised that the Comptroller's office would continue to insist upon (1) proper standards of banking practice, (2) reduction of the percentage of criticized assets, and (3) increase in capital ratio.

54. November 26, 1938 - Letter from Acting Comptroller Upham to National Bank Examiner L. H. Sedlacek, permitting and authorizing

Mr. Sedlacek to discuss with the S.E.C. the affairs of the Bank of America, including the names of borrowers and the collateral for loans.

55. December 7, 1938 - Letter from Mr. Douglas to the Secretary, requesting the loan to the Commission of any expert appraisers available in the Treasury Department to assist the Commission in appraising certain farm and city property held as collateral for loans made by the Bank of America.

56. December 9, 1938 - Memorandum from Mr. Oliphant to Mr. Delano, advising that there is no legal objection to the designation by the Comptroller of one or more persons in his office to serve as points of contact with the S.E.C. as requested in a letter from Mr. Douglas.

57. December 10, 1938 - Memorandum from Mr. Foley to Mr. Delano, advising that there is no legal authority for the Treasury Department to loan personnel (such as appraisers) to the S.E.C. However, services could be performed for the S.E.C. and appropriate payment made by the Commission to the Treasury.

58. December 15, 1938 - Letter from Mr. L. M. Giannini to the Comptroller attaching an outline memorandum of a program to settle the issues in dispute between the Bank and the Comptroller, which program was worked out after conferences with various officials in Washington. Mr. Giannini indicated that he believed the program would be acceptable to the board of the Bank, although he did not believe that the Bank should be compelled to maintain a 1 to 10 ratio of capital to deposits.

59. December 15, 1938 - Letter from Mr. Jesse H. Jones to Mr. Hanes, enclosing the above letter of December 15 from Mr. Giannini. Mr. Jones indicated that the memorandum with Mr. Giannini's letter was as agreed upon by Mr. Hanes, Mr. Jones, Mr. Crowley, and Mr. Delano. Mr. Jones also indicated that it was his understanding that Messrs. Upham, Folger, Smith and others in the Comptroller's office concurred with Mr. Hanes.

60. December 17, 1938 - Letter from Acting Comptroller Upham to Assistant Chief National Bank Examiner F. W. Krippel, permitting and authorizing him to discuss with the S.E.C. the affairs of the Bank of America.

61. December 17, 1938 - Memorandum from Mr. Foley to the Secretary, making certain objections to the program worked out with Mr.

L. M. Giannini by certain administrative officers, and indicating that the General Counsel's office had not participated in the negotiations. Mr. Foley pointed out that the proposed agreement would have no binding legal effect and that there would be no way of enforcing it since it implied that no letter of warning would be sent. The agreement would waive the dividend warning contained in the telegram of September 13, 1938. In addition the proposed agreement ignored certain illegal activities engaged in by the Bank.

62. December 22, 1938 - Letter from Mr. Delano to Mr. L. M. Giannini referring to Mr. Giannini's letter of December 15 and advising that he, as Comptroller of the Currency, was not at liberty to bind his official actions in the future or to surrender the discretion which legislation creating his office vested in him. He indicated that he was not at liberty to agree in advance that any dividend might be paid pursuant to a declaration in March 1939. Stated that the program for the Bank transmitted with Mr. Giannini's letter of December 15 would be helpful.

63. December 31, 1938 - Letter from Mr. L. M. Giannini to the Comptroller referring to the Comptroller's letter of December 22 and pointing out that the memorandum of a program for the Bank was prepared in the Treasury and was not of Mr. Giannini's authorship. Indicated that the best year in the history of the Bank was just closing and expressed a desire to continue cooperation with the Treasury, the Federal Reserve Board, and the Federal Deposit Insurance Corporation.

64. January 11, 1939 - Letter from Mr. L. M. Giannini to Mr. Delano, advising that the Board of Directors of the Bank had authorized the management to follow the program developed in the conferences in Washington, and to present to the Board such matters in regard thereto as might require specific action of the Board.

65. January 16, 1939 - Letter from Mr. Douglas to Mr. Hanes, enclosing certain correspondence between the S.E.C. and attorneys for Transamerica concerning a proposal to postpone the opening of the S.E.C. hearing on Transamerica. Mr. Douglas also transmitted for suggestions a proposed letter from Mr. Douglas to the attorneys for Transamerica, denying that the Transamerica proceedings carried any implication of a failure on the part of the Comptroller of the Currency or the Federal Reserve Board to carry out their duties, and denying that no controversy existed between the Bank of America and the Comptroller's office.

66. January 16, 1939 - Opening of the Transamerica hearing at the S.E.C. (The hearing was attended regularly by Mr. Donald J. Sherbondy in Mr. Foley's office. Mr. Foley transmitted numerous memoranda to the Secretary, advising him of significant occurrences at the hearing.)

67. January 16, 1939 - Complaint in the case of Bank of America v. Douglas, et al in the District Court of the United States for the District of Columbia, alleging, among other things, that the Secretary of the Treasury acted illegally in making available the reports of examination of the Bank of America to the S.E.C., and requesting an injunction restraining the S.E.C. from using such reports and from investigating the Bank.

68. January 18, 1939 - Memorandum from Mr. Foley to the Secretary with reference to a conference between Mr. Foley and the Attorney General. Mr. Foley left with the Attorney General, as background material in case he was called upon for an opinion, a copy of Mr. Oliphant's opinion regarding the legality of the Treasury's action in making available to the S.E.C. the reports of examination.

69. January 20, 1939 - Letter from the Secretary to the Attorney General, requesting an opinion as to the authority of the Secretary of the Treasury to make available to other agencies of the Government reports of examination of a national bank.

70. January 20, 1939 - Letter from Mr. Douglas to the Secretary, requesting copies of Treasury rules and regulations with respect to the disclosure of information in the files of the Department, and an affidavit concerning the present and past policy of the Department with respect to furnishing such information to Government agencies.

71. January 20, 1939 - Letter from Mr. Douglas to the Secretary, requesting an affidavit of the Comptroller of the Currency to the effect that the Comptroller did not regard himself as authorized by law to prescribe accounting practices to be followed by national banks.

72. January 21, 1939 - Letter from Mr. W. N. Thompson, Acting Administrative Assistant to the Secretary, to Mr. Douglas, transmitting affidavits of W. H. McReynolds, Administrative Assistant to the Secretary, and Mr. Upham, in response to the above requests from Mr. Douglas.

73. January 21, 1939 - Memorandum from Mr. Foley to Mr. Morgenthau with reference to a conference in the office of Mr. Golden Bell at the Department of Justice, at which were also present other officials of the Department of Justice. Mr. Bell indicated that it was inappropriate for the Attorney General to render a formal opinion on the question of the use of information from files in the Treasury Department by the S.E.C. because the Treasury had already acted in the matter. After several hours of discussion all parties present agreed that the action of the Secretary of the Treasury on the merits was proper and a memorandum to that effect was prepared for the Attorney General. Mr. Foley indicated that it was his opinion that the Attorney General would communicate with the Secretary on the matter.

74. January 21, 1939 - Verbatim report of a telephone conversation between the Secretary and Mr. Kemp in the Attorney General's office. The Attorney General was not in his office. Mr. Kemp advised that the memorandum prepared at the conference with Mr. Foley that morning had been examined by the Attorney General who said it was correct. Mr. Kemp read the memorandum to the Secretary, the substance of the memorandum being that there was no legal objection to the Secretary turning over reports of examination and other relative information to the S.E.C. The memorandum contained the statement that it was improper under the circumstances to render a formal opinion since the action had already been taken by the Treasury, and, further the action of the Treasury was involved in a court proceeding. Mr. Kemp advised that he understood that the Attorney General concurred in the memorandum.

75. January 27, 1939 - Letter from Mr. Douglas to the Secretary, requesting certified copies of Treasury rules and regulations with respect to the disclosure of departmental information.

76. January 27, 1939 - Letter from Mr. McReynolds to Mr. Douglas transmitting certified photostatic copies of Treasury rules and regulations.

77. January 27, 1939 - Memorandum from Mr. Foley to the Secretary setting forth the practice of the Office of the Comptroller of the Currency in dealing with requests for inspection or use of reports of examination and other confidential records relative to national banks.

78. January 28, 1939 - Two letters from Mr. McReynolds to Mr. Gough, Deputy Comptroller of the Currency, and to Mr. W. N. Thompson,

Assistant Administrative Assistant to the Secretary, authorizing Mr. Gough and Mr. Thompson to respond to subpoenas and testify as witnesses in the case of Bank of America v. Douglas. (Mr. Anderson, Assistant Counsel in the Comptroller's office, also appeared as a witness in the same case.)

79. January 30, 1939 - Opinion of Mr. Justice O'Donoghue in the District Court of the United States for the District of Columbia, which upheld the action of the Secretary of the Treasury in making available to the S.E.C. the reports of examination.

80. February 17, 1939 - Memorandum from Mr. Foley to Mr. Delano, pointing out that Mr. Delano might desire to give consideration to the question of whether the Bank of America was to be warned before the date for the board of director's meeting in March, at which a new dividend would probably be declared.

81. February 20, 1939 - Letter from Mr. Delano to Mr. L. M. Giannini, advising that although the current report of examination would not be completed until March 1, a preliminary approximation of the figures indicated that in order to establish a one to ten ratio for the Bank, it would be necessary to increase the capital of the Bank between $33,000,000 and $38,000,000.

82. February 21, 1939 - Two memoranda, both initialed by Mr. Thurman Arnold at the Department of Justice, of a conference of Mr. Arnold with Messrs. Delano, Foley and Sherbondy, to advise him of facts in the Bank of America situation which might involve criminal violations. Mr. Arnold agreed that it appeared inadvisable at that time for the Comptroller of the Currency to refer formally to the Department of Justice any possible criminal violations.

83. March 9, 1939 - Memorandum from Mr. Sherbondy (through Mr. Foley) to Mr. Wenchel, advising him of certain facts in the Bank of America situation which might involve tax avoidance.

84. March 18, 1939 - Memorandum from Mr. Foley to the Secretary, advising him that Mr. Rogge at the S.E.C. had informed Mr. Sherbondy by telephone that the S.E.C. had a letter from one of their men on the West Coast forwarding a rumor that the Bank of America had recently made a loan of approximately $800,000 to a prominent official in Washington. Mr. Foley indicated that he had hurriedly checked without success the recent report of examination of the Bank.

85. <u>March 22, 1939</u> - Memorandum from Mr. Upham to Mr. Foley, requesting a legal opinion as to whether Transamerica is a holding company affiliate of the Bank of America, in view of the fact that Mr. Russell G. Smith, Vice President and Cashier of the Bank, had informed Mr. Folger that at the January meeting of the Bank's stockholders, Transamerica had voted the Bank stock owned by it.

86. <u>March 28, 1939</u> - Transamerica hearing suspended under an agreement by which the Bank would make available to the S.E.C. its books and records.

87. <u>March 30, 1939</u> - Memorandum from Mr. Foley to Mr. Delano, advising that if Mr. Russell G. Smith's statement that Transamerica had voted its Bank stock at the last meeting of the Bank's stockholders was true, Transamerica was a holding company affiliate of the Bank of America.

88. <u>March 30, 1939</u> - Argument in the United States Court of Appeals for the District of Columbia on the appeal of the Bank of America from Mr. Justice O'Donoghue's decision in the District Court.

89. <u>March 31, 1939</u> - Memorandum of a conference at the Treasury between Mr. Louis Ferrari, Counsel for the Bank, and Mr. Russell G. Smith, Vice President and Cashier of the Bank, and Messrs. Clarence F. Smith, James L. Robertson, and Donald J. Sherbondy, of the Treasury Department, to discuss the matter of service charges by the Bank against its dormant accounts. Representatives of the Treasury made no commitments in the matter and the representatives of the Bank agreed that they would forward additional information requested by the Treasury representatives.

90. <u>April 4, 1939</u> - Letter from Mr. Hanes to the Secretary, transmitting copies of the following letters with reference to the proposed $25,000,000 loan by the Reconstruction Finance Corporation to the Bank to increase its capital, and advising that a complete file was being transmitted to the President at Warm Springs:

   (1) <u>April 4, 1939</u> - Letter from Mr. Jones to Mr. Hanes, transmitting the following:

      (a) <u>February 25, 1939</u> - Letter from Mr. Jones to Mr. L. M. Giannini, advising that upon request of the Secretary of the Treasury and the approval of the President the Reconstruction Finance Corporation would lend to stockholders of the Bank money to enable the stockholders to subscribe for preferred stock of the Bank. The loan would be at 3½% and the preferred stock would carry 4%;

(b) March 31, 1939 - Letter from Mr. Douglas to Mr. Jones, advising that the S.E.C. had no objection to the proposed Reconstruction Finance Corporation loan; and

(c) April 3, 1939 - Letter from Mr. L. M. Giannini to Mr. Jones, making application on behalf of the Bank's stockholders for a loan up to $25,000,000 upon the terms and conditions outlined in Mr. Jones' letter of February 25.

(2) April 4, 1939 - Letter from Mr. Jones to the Secretary recommending that the Reconstruction Finance Corporation loan $25,000,000 on the preferred stock of the Bank, and advising that the usual formal recommendation would be sent to the Secretary in due course.

(3) April 4, 1939 - Letter from Mr. Delano to the Secretary recommending that the Secretary request the Reconstruction Finance Corporation to make the loan to the stockholders of the Bank.

(4) April 4, 1939 - Letter from Mr. Crowley to the Secretary, advising that the proposed increase in the capital of the Bank was in line with the program developed by the Comptroller of the Currency and that the new capital would materially strengthen the position of the Bank.

(5) April 4, 1939 - Letter from Mr. Hanes to the Secretary recommending that the Secretary request the Reconstruction Finance Corporation to make the loan.

91. April 7, 1939 - Memorandum from Mr. Foley to the Secretary, advising him that on April 4 the S.E.C. filed a law suit in the United States District Court for the Northern District of California, requesting an injunction to restrain Timetrust Inc., A. P. Giannini,

L. M. Giannini, and John M. Grant, President of Transamerica, from defrauding investors by a scheme of selling so-called trust certificates.

92. April 7, 1939 - Memorandum from Mr. Foley to the Secretary, advising him that on April 6 the S.E.C. filed another law suit in the District Court of the United States for the Northern District of California, to restrain a former employee (Mahaney) of the S.E.C. from disclosing confidential information with reference to the Transamerica investigation to the Bank of America, L. M. Giannini, and Transamerica Corporation.

93. April 10, 1939 - Proposed draft of a letter from Mr. L. M. Giannini to the Comptroller advising that as a condition to the Reconstruction Finance Corporation loan, the Bank would agree to declare no further dividend if in the opinion of either the Comptroller of the Currency, the Federal Reserve Board, or the Federal Deposit Insurance Corporation, the payment of such dividend would impair the capital stock of the Bank or would constitute an unsafe or unsound banking practice.

94. April 11, 1939 - Letter from the Secretary to Mr. Richberg, acknowledging receipt of Mr. Richberg's letter of April 10. The Secretary stated that as to the Bank matter it was his practice not to discuss "out of channels" legal problems effecting the Department, and suggesting that Mr. Richberg take the Bank situation up with the Treasury lawyers. The Secretary advised that he would telephone Mr. Richberg if possible that week, as to when it would be convenient to see him.

95. April 13, 1939 - Memorandum from Mr. Delano to the Secretary, digesting the criticisms of the Bank as shown by the report of examination,dated February 28, 1939.

96. April 14, 1939 - Letter from Mr. Delano to the Board of Directors of the Bank of America discussing the report of examination of the Bank completed February 28, 1939.

97. April 27, 1939 - Memorandum from Mr. Upham to Mr. Foley, transmitting a memorandum from National Bank Examiner McLean at San Francisco, with further reference to the voting of the Bank's stock by Transamerica at the January meeting of the Bank's shareholders.

98. May 2, 1939 - Memorandum from Mr. Foley to Mr. Upham, advising that if there is evidence available to prove the statements made in Mr. McLean's memorandum, the information in that memorandum would not alter the conclusion in Mr. Foley's memorandum of March 30, 1939 addressed to Mr. Delano, advising that Transamerica is a holding company affiliate of the Bank of America.

99. May 8, 1939 - Decision of the United States Court of Appeals for the District of Columbia in the case of Bank of America v. Douglas, which approved the action of the Secretary of the Treasury in making available to the S.E.C. the reports of examination.

100. May 11, 1939 - In view of press statements that Mr. L. M. Giannini had sent telegrams to Senator Wagner and Congressman Steagall requesting an investigation of the controversy with the Bank, at the Secretary's request Mr. Bernard and Mr. Spingarn in the legislative section of the General Counsel's office took personally to Senator Wagner and Congressman Steagall copies of the opinions in the case of Bank of America v. Douglas and Securities and Exchange Commission v. Mahaney. Both gentlemen indicated that they approved the actions of the Treasury Department in this matter and that they had not given any serious consideration to the telegrams from Mr. Giannini.

CHRONOLOGY OF EVENTS RELATIVE TO

THE BANK OF AMERICA NATIONAL TRUST AND

SAVINGS ASSOCIATION

SEPTEMBER 1, 1938

TO

APRIL 16, 1939

Bank of America N.T. & S.A.

September 1, 1938	Mr. Folger discussed with Mr. Smith, Vice President and Cashier of the Bank of America, the asset condition of the bank and management policies. Emphasis was given to the necessity for conserving earnings to take care of losses rather than payment of excessive dividends.
September 8, 1938	Acting Comptroller Diggs recommends to the Secretary (at his request) that the dividend rate of the Bank of America be reduced from 19.2% to not over 6%; that the bank charge off promptly losses estimated by examiners in semi-annual examinations; that the bank discontinue the practice of transferring other real estate to affiliates by substituting therefor the form of contract now in use; and that the bank be given little if any authority to operate additional branches until its condition has been materially improved.
24- September 13, 1938	Deputy Comptroller Gough makes detailed reply to A. P. Giannini's letter of May 6th complaining about examiner's criticisms. Refers to "maze created by numerous loans to affiliates, the mass of real estate held directly and indirectly, the under-capitalized condition of the bank . . . . and payment of dividends at exorbitant rates", besides many other details.

September 13, 1938	Telegram from Acting Comptroller Diggs to Examiner Palmer to be read at meeting of bank board warning bank that declaration of dividend would be unsafe and unsound banking practice. (Board declared dividend nevertheless.)
September 15, 1938	Letter from A. P. Giannini to Acting Comptroller Diggs protesting warning telegram.
September 20, 1938	Telegram from L. M. Giannini to Acting Comptroller Diggs informing him that the bank had requested a hearing before the Board of Governors of the Federal Reserve System.
September 21, 1938	Charles W. Collins, representing the Bank of America, conferred with Mr. Barse to learn the course of action which the Comptroller's office contemplates taking.
September 23, 1938	Letter to each director of the Bank of America from Acting Comptroller Diggs outlining their personal liability as directors.
September 23, 1938	Letter to each director of the Bank of America from Acting Comptroller Diggs summarizing the criticisms in the latest report of examination. Letter refers to "ever-increasing, ill-advised dividends . . . frozen and unbankable assets . . . inadequate reserves . . . . and undercapitalized condition"; summarizes examiner criticisms in some detail.

September 27, 1938	Mr. Charles W. Collins telephoned to Deputy Comptroller Gough asking for information about the status of the Bank of America negotiations. Mr. Gough made a non-committal reply.
September 29, 1938	Mr. Prentiss, District Chief Examiner in San Francisco, telephoned Chief Examiner Folger that the cashier of the bank had suggested that Mr. Prentiss call on A. P. Giannini for a "satisfactory arrangement" of the difficulties. Mr. Prentiss was instructed not to approach Mr. Giannini.
October 3, 1938	Letter received from secretary of board stating that a committee of nine directors had been named to review the communications from the Office of the Comptroller.
October 17, 1938	Letter dated October 11th to Comptroller from directors of bank purporting to answer in detail the examiner criticisms summarized in Mr. Diggs letter of September 23rd.
October 20, 1938	Charles W. Collins called on Acting Comptroller Upham to urge that the management of the bank be afforded an opportunity for a conference with the Comptroller's office.
October 29, 1938	Letter from Chairman Crowley to Comptroller Delano outlining chief weaknesses of Bank of America as seen by FDIC. They are: Large volume of real estate; small relative net sound capital; unsound relations with affiliates; unjustifiable expansion; unwarranted dividends.

40 November 3, 1938	Letter from Acting Comptroller Upham to Chairman Eccles stating that the general counsel of the Treasury is prepared to discuss Section 30 procedure with the Federal Reserve Board staff.
41 November 9, 1938	Letter from secretary of the board of the bank claiming that net sound capital had been improved $2 million since September 30th.
42 43 November 14, 1938	Letter from Chairman Eccles to the Comptroller assuring him that the Board and its staff "are ready to cooperate to the fullest extent possible to expedite the proper disposition of any Section 30 proceeding instituted by your office.
November 21, 1938 49	New examination of Bank of America begun.
November 23, 1938 50 51	Letter from Comptroller Delano to directors of bank agreeing to a conference in Washington with representatives of bank; also continuing to insist upon (1) proper standards of banking practice, (2) a reduction in the percentage of criticized assets, and (3) an increase in capital ratio. Conservation of earnings was also mentioned.

November 23, 1938 - December 7, 1938

Comptroller's office prepares agenda for meeting with representatives of Bank of America. Short agenda includes immediate elimination by Transamerica and affiliates of approximately $15,000,000 in assets purchased by the bank; bank to agree not to write up on its books value of assets; elimination of other real estate and real estate contracts within 5-year period; cessation in the expansion program of Bank of America and Transamerica; conservation of earnings; increase in capital of $50,000,000 at once. Major emphasis was to be placed on the last three items. Additional details were contained in a technical "long agenda."

December 6, 1938

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Letter to Eccles. Comptroller Delano advises Chairman Eccles of the major points of criticisms upon which he hopes to get substantial agreement in conferences with the Bank of America representatives. They include: Cessation of expansion; conservation of earnings, with dividends not in excess of 6%; elimination of "other real estate" and real estate contracts within five years; increase in capital by not less than $25,000,000 by the sale of new stock at once; elimination by Transamerica Corporation and its affiliates of approximately $15,000,000 in assets illegally purchased by the bank; and immediate elimination of Transamerica excessive loan.

December 7, 1938

Chairman Crowley informs Comptroller Delano of major corrections which bank should make. They include: $50 million immediate capital increase; conservation of earnings with dividend policy subject to approval of Comptroller; no expansion of number of offices; program for elimination of "other real estate"; elimination by Transamerica of assets illegally purchased; restriction of credit extension to Transamerica and affiliates.

December 8-15, 1938	Various conferences were held between President L. M. Giannini, Vice President W. E. Blauer, and Vice President and Cashier Russell G. Smith, and Comptroller Delano and other Government officials. Coordinately,technical matters were discussed in conferences with Chief Examiner Folger and Assistant Chief Examiner Smith.
December 15, 1938	Letter to Comptroller from L. M. Giannini submitting memoranda program of 17 points that he agreed to present to his Board with his recommendation for their acceptance. Major part of program was agreement to "effect and reasonably maintain a sound capital structure having a ratio to its entire deposits of 1 to 10"; to furnish as much additional capital as may be required for this ratio as determined by the Comptroller of the Currency after the result of the examination then in progress, the Board being free to declare a semi-annual dividend in March 1939 provided steps have been taken by the bank to increase its capital as outlined above, the increased capital to be paid into the bank as early as practicable but in no event later than June 30, 1939. No dividends to be declared after June 30, 1939 unless the sound capital structure bears a ratio to entire deposits of substantially 1 to 10.
December 22, 1938	Letter from Comptroller Delano to L.M. Giannini stating that Comptroller cannot bind his official action by agreement and stating that he is glad to know that Mr. Giannini believes program outlined will be acceptable to the Board of Directors of the bank.

December 31, 1938	Letter to Comptroller from L. M. Giannini stating that December 15 memorandum was not of Mr. Giannini's authorship but was prepared in the office of the Comptroller. Mr. Giannini repeated that he would recommend to the Board that the bank undertake to follow the program outlined in the memorandum.

January 11, 1939 — Letter signed by L. M. Giannini to Comptroller Delano stating that at a meeting of the Board on January 10, upon his recommendation the Board authorized the management to follow the program outlined in the memorandum of December 15.

January 21, 1939 — Affidavit of Deputy Comptroller Upham in case of Bank of America N. T. & S. A. v. Wm. O. Douglas, et al. in the District Court of the U. S. for the District of Columbia, the important part of which is to the effect that neither the banking laws nor the Comptroller acting under them have prescribed any particular accounting methods or practices for national banks.

February 20, 1939 — Letter from Comptroller Delano to L.M. Giannini stating tentative figures of current examination show necessity for capital increase of $33 million to $38 million.

February 24, 1939 — Mr. Delano, Mr. Foley and Mr. Sherbondy discussed with Mr. Thurman Arnold as Acting Attorney General, possible violations of the criminal laws in the management of the Bank of America N. T. & S. A. Mr. Arnold agreed it would be inadvisable at the present for the Comptroller to refer formally to the Department of Justice any possible criminal violations or for the Department of Justice to institute an investigation with reference thereto.

February 25, 1939 — Letter from Chairman Jones to President Giannini in furtherance of conference between them and Comptroller Delano. Giannini told that RFC will lend to stockholders of Bank of America money necessary to enable them to subscribe for any increase in capital stock determined upon and approved by the Comptroller. Preferred stock to bear 4%; loans to be at 3-1/2%.

March 7, 1939	Letter signed by President Giannini to Comptroller Delano objecting to program outlined but stating willingness to follow it out nevertheless.
March 14, 1939	Directors of bank appointed a special committee to work out details of plan to increase capital. Board also voted regular semi-annual dividend at previous rate of 19.2.
March 18, 1939	Letter of criticism prepared based upon report of examination recently received. Criticisms substantially same as those of letter of September 23, 1938.
March 23, 1939	Another series of conferences begun between officials of the bank and Chief Examiner Folger with regard to the recently completed examination.
April 3, 1939	L. M. Giannini wrote Chairman Jones that he would suggest the bank increase its capital funds by $25,000,000 and that he would recommend to the directors of Transamerica that any dividend received on stock subscribed to by them in excess of the interest paid to the RFC would be remitted to the bank. Mr. Giannini asked Mr. Jones to treat his letter as an application for a loan or loans up to $25,000,000 in line with Mr. Jones letter of February 25.
April 4, 1939	Letter from Comptroller Delano to Secretary Morgenthau outlining the procedure to be followed in financing the increase in capital and stating that this is a necessary step toward the effecting and maintenance of a ratio of 1 to 10. Mr. Delano gave as his opinion that "because of the asset condition of the Bank of America the securing of these additional funds is a very important and necessary part of our program for the improvement of the capital position of the bank."

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April 7, 1939
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Undersecretary Hanes advised Comptroller Delano that the Comptroller was to clear with the FDIC and the Federal Reserve the letter which Mr. Giannini will be asked to sign and send to the Comptroller, stating that as a condition of any loan which the RFC might make to stockholders of the bank, the bank would agree to declare no further dividend if in the opinion of the Comptroller the FDIC or the Federal Reserve, the payment of such dividend would impair the capital stock of the bank or constitute an unsafe or unsound banking practice.

April 13, 1939

Comptroller Delano asked the FRB for their opinion as to this procedure and if they were prepared to assume the responsibility.

April 13, 1939

Assistant Secretary Bethea of the FRB informed Comptroller Delano that it could not properly assume this responsibility and could not approve of the procedure outlined.

April 13, 1939

Mr. Crowley advised Comptroller Delano that he agreed with the principle of control of dividends paid by banks which are in an unsatisfactory condition and that the Bank of America should reduce its dividend. He said he would dislike to see the provision as to dividends be the reason for the Bank of America not increasing its capital.

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April 15, 1939

Comptroller Delano orally informed by Secretary Morgenthau that President Roosevelt had approved change in proposed letter to be secured from L. M. Giannini eliminating from the letter the Board of Governors of the Federal Reserve system and the FDIC as agencies having veto power over the declaration of future dividends by the Bank of America.

April 15, 1939

Letter from Comptroller Delano to L. M. Giannini informing him with respect to publicity necessary in published financial statements as to dividend rate payable on preferred stock and subscribed price upon which dividends based and repayment made in event of retirement or liquidation of stock.

April 15, 1939

Comptroller Delano asked L. M. Giannini to sign letter agreeing to veto by Comptroller of dividends on Bank of America stock. Mr. Giannini told that President desired letter signed as condition precedent to underwriting or financing of increased stock by RFC. Mr. Giannini took exception to the proposal as entirely unjustified, discriminatory and evidence of persecution. Mr. Giannini asked a letter reciting the fact that this is a condition imposed by the President.

April 16, 1939

Letter from LM Giannini to Comptroller Delano stating his willingness to proceed with the program outlined in December but omitting any reference to the matter of veto by the Comptroller of dividends by Bank of America and objecting to the imposition of new conditions at this time as a breach of the mutual good faith pledged in December.

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May 11, 1939

CHRONOLOGY OF EVENTS, WITH PERTINENT DOCUMENTS,

RELATIVE TO

THE BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

* * * *

Prepared by

DONALD J. SHERBONDY

D.J.S. 9/26/38 E.H.F.L. [illegible]

SUMMARY AND INDEX

1. December 8, 1937 - Hearings before the sub-committee of the House Committee on Appropriations relative to the Treasury Department Appropriation Bill for 1939:

"Johnson: Mr. Secretary, do you have any suggestions to make as to whether, or not, the banking laws should be in any wise changed? I ask that because you are familiar with the banking laws.

"H.M.Jr: There is only one thing that bothers me about the banking situation, and that is we may want to do away with holding companies for bank securities. There are 8 or 10 holding companies that hold a lot of bank stock, and I think that is an unhealthy situation.

"Johnson: Do you think that the banking laws as they are now cover the situation pretty well?

"H.M.Jr: Basically, yes.

"Taber: Are not the provisions of the banking law as to branch banking rather too liberal, especially in the case of small communities?

"H.M.Jr: That is something else, and if you do not mind--

"Taber (interposing): They do the same things nationally on a broader scale, without regard to the limitations of the law as to branch banking.

"H.M.Jr: I do feel very strongly on the subject of holding companies. There would be just a few people controlling important banks. They are growing all the time.

"Taber: I think you are correct on that.

"H.M.Jr: They have one in New York. I have no criticism of that particular group, but I do not think it is a healthy situation. (p. 20)

2. <u>January 19, 1938</u> - Secretary's staff meeting. The following quoted from the minutes:

"Magill: Henry, I thought you might be interested to know I had a lunch yesterday will Bill Douglas.

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"Magill: Yes. Then he said he had some stuff on Trans-America.

"H.M.Jr: On what?

"Magill: On Trans-America.

"H.M.Jr: He volunteered that?

"Magill: Yes. And he said, 'I'm thinking of sending it to Jefty O'Connor.'

"H.M.Jr: Yes.

"Magill: 'Well,' I said, 'he isn't in the Treasury. Why don't you send it to the Secretary?'

"H.M.Jr: Yes.

"Magill: He said, 'all right, I'll do that. I don't know where to send it, but I'll send it where-ever it should go.' He said, 'It's fragmentary, but it looks very bad.'

"H.M.Jr: Yes, Well, I'd like to have it.

"Magill: Yes. Well, that's about ...

"H.M.Jr: Now, is Trans-America subject to regulation?

"Magill: No, I wouldn't think so.

"H.M.Jr: No other than the New York Stock Exchange.

"Magill: I wouldn't think so, within what he was talking about.

"H.M.Jr: Well, that's interesting."

3. January 21, 1938 - Letter from Mr. William O. Douglas, Chairman of the SEC, to the Secretary transmitting, pursuant to Mr. Magill's suggestion, a copy of a survey of the Transamerica Corporation prepared in connection with the SEC's study of investment companies. Mr. Douglas indicated that the SEC could make no further survey of Transamerica as part of the investment study. (Summary of SEC report prepared by Mr. Upham and dated January 26, 1938.)

4. January 28, 1938 - Minutes of group meeting in the Secretary's office relative to bank holding companies. (The whole series of joint meetings on the President's message to Congress relative to group banking was a part of the Secretary's interest in the Bank of America situation.) During the meeting the Secretary was insistent that prompt steps be taken with reference to the Bank of America. The following is quoted from the minutes of the meeting:

"H.M.Jr (to Mr. Douglas: You don't mind my saying that I've got that - that that was a nice report on Trans-America you dumped into my lap. I mean I just want these gentlemen to know that I've got it and that you gave it to me, because I can't just sit with it and not do something about it, and - I mean I'm willing to accept it where you people leave off. I mean ....

"Douglas: That particular study wasn't a hundred percent; that is to say, we hadn't got way down into the roots of the whole thing; we just touched the surface of that problem.

"H.M.Jr: I haven't fully absorbed it, but after I have I'd like to talk to you some more. But it only bears out this - the fact that there is something very much to be worried about. (p. 6.)

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"H.M.Jr: What I want to do at this time, before we go any further, is this. As Secretary of the Treasury, I am going to ask the Chairman of the R.F.C. to take a look at the Bank of America to see whether they have sufficient capital, and I'm going to ask him to do it just as promptly as possible.

"Jones: All right, if we can have your (Diggs) report and your (Crowley) report, why, we'll dig right into it and I'll give you an answer in a very few days. We've got some general information, but I don't think we've had the benefit of the Comptroller's report. (p. 22.)

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"H.M.Jr: And what I would say is that just as soon as Mr. Jones is ready, and now that he's heard what you've got to say - the more I go into it, the more serious it looks - but the minute that he's ready, I'll call another meeting like this. And, fortunately, we can call it a bank holding meeting and not have it look as though we were studying Trans-America or Bank of America. But I would say to Mr. Jones - I mean he's a fast worker and Sundays don't mean anything to him when he has to work, so that the minute he's got something and is ready to report back to these agencies, who are charged with the responsibility - and fortunately we've got everybody in the room who's got anything to do with it; there isn't anybody in the Government who isn't in the room now, and the minute you've got something ....

"Jones: I'll give you a ring.

"H.M.Jr: You'll give me a ring and we'll have another meeting. But I think it's all the more important that we take a look at the Bank of America and see that they have ample capital. There seems to be two opinions as to their statement, and that's what bothers me - the fact that the F.D.I.C. thinks one thing and the Comptroller's office thinks another. And I think the quicker we get to the bottom of it, the better. And, of course, we don't want to start any whispers or anything, but I would say, Mr. Douglas, that one or two days to you wouldn't make an awful lot of difference." (pp. 24-25)(Mr. Jones' report given to the Secretary about February 18. See 14 below.)

5. January 28, 1938 - Letter from Mr. O'Connor to the Secretary (received January 29 at 11:55 a.m.) in which Mr. O'Connor expressed surprise at Mr. Crowley's critical remarks at the morning conference (4 above) with reference to the Bank of America. Mr. O'Connor stated

that if Mr. Crowley's statements were correct, he should have presented the facts to the Board of the FDIC and a notice should have been sent to the Bank.

6. January 29, 1938 - 11:00 a.m. - Secretary suggested that Mr. O'Connor, as a member of the Board of the FDIC, ask Mr. Crowley to bring information relative to Bank of America formally before the Board of the FDIC for whatever action the Board deemed necessary. Mr. O'Connor agreed. (Secretary's memorandum.)

7. January 29, 1938 - Letter from Mr. O'Connor to the Secretary in which he advised that Mr. A. P. Giannini was in his office and indicated that he favored a bank holding company bill based upon a 10 per cent stock ownership definition of a bank holding company.

8. January 29, 1938 - Letter from Mr. O'Connor to the Secretary in which he advised that Mr. Crowley stated to him that there was nothing the Board of the FDIC could do at that time with reference to Bank of America and that there was no action he could suggest to the Board.

9. January 29, 1938 - Mr. Opper's memorandum, dated January 31, 1938, covering meeting at Secretary's house at 5:00 p.m., on January 29, to advise him of the SEC's interest in the Trans-America situ tion. Messrs. Throop, Lane and Judy of the SEC present. Meeting concluded by request from the Secretary, acceded to by the SEC representatives, that any final action determined upon by the Commission would be communicated to the Treasury.

10. January 31, 1938 - Letter from the Secretary acknowledging Mr. O'Connor's letters of January 28 and 29 (5, 6 and 8 above) and stating that in view of his oral discussion with Mr. O'Connor on January 29, he assumed no further reply to the letter of January 28 was necessary.

11. January 31, 1938 - Memorandum from Mr. Opper to the Secretary advising that Mr. Chester Lane of the SEC had informed him that the SEC had discussed with Messrs. Neblett, his partner Warner, Baker and Scampini, all of Transamerica, the proposed distribution of Paganucci stock (see memorandum under 9 above). No conclusion reached and another meeting scheduled for next day.

12. February 1, 1938 - Memorandum from Mr. Opper to the Secretary advising that Mr. Chester Lane of the SEC had informed him that

the SEC had taken the position that the Paganucci stock could not be distributed without registration. Neblett advised of that conclusion. Question of a general investigation of Transamerica still open. Lane indicated he would keep us advised.

13. February 1, 1938 - Memorandum from Mr. Upham to the Secretary in which Mr. Upham stated that Mr. Crowley had informed him that at a conference with Mr. Giannini on Saturday (January 29) he had told Mr. Giannini that, so far as he was concerned, Mr. Giannini's application for approval of some branches of state banks would never be granted. Mr. Giannini also indicated that he favored the bank holding company bill. (See 15, 20 and 21 below)

14. February 16, 1938 - Secretary's staff meeting. Secretary gave Mr. Jones' report (see 4 above) to Mr. Upham. (Minutes p.1.)

15. March 8, 1938 - Letter from the Secretary to Mr. Crowley in which he inquired as to whether there had been any change in the policy of the F.D.I.C. since its letter of February 16 to the Central Bank of Oakland, California, in which letter the bank was advised that action upon its application for approval of certain branches would be postponed until public policy on the matter had been clarified.

16. March 9, 1938 - Secretary's staff meeting. The following quoted from the minutes:

"H.M.Jr: *** Mr. Oliphant, I'd like your people to examine Mr. Glass' bill from the standpoint 'does it control Trans-America?' Will you please, also, Mr. Oliphant, find out what, if anything, S. E. C. is doing in regard to Trans-America, see? Does it do anything on Trans-America?" (p. 2) (Memorandum showing effect of Glass Bill, if enacted, upon Transamerica Corporation sent to Mr. Upham by Mr. Foley on March 11, 1938. Copy filed hereunder.)

17. March 18, 1938 - Secretary's staff meeting. The following quoted from the minutes:

Telephone conversation between the Secretary and Mr. Douglas of the SEC:

"H.M.Jr: Fine. Now one other thing. Ah, if it would be agreeable to you, I'd like my Mr. Upham to contact, in your shop, whoever is doing the investigation of, ah, Trans-America." (p. 3)

Discussion in Staff Meeting:

"H.M.Jr: (To Mr. Oliphant) I want you to assign some very good lawyer that Upham could call on when necessary, to advise him - advise me - on this particular thing, see? Somebody - will you? I want somebody who'd do this and the Comptroller's office - some one person, see, so it would be just between you (Mr. Upham) and one person-so that nobody but you and one person ...... [Pursuant to the above Mr. Oliphant appointed Mr. Sherbondy in Mr. Foley's division of the General Counsel's office.]

"H.M.Jr: All right, Cy?

"Upham: Yes, fine.

"H.M.Jr: I want you to tie this thing together and then as we go along you keep Mr. Taylor and myself advised what you are doing, see, but that is a big enough job for anybody - I mean the Comptroller's end plus the S. E. C. end, and tie the thing together. I am not at all satisfied with what's going on. I mean I'm not going to wait until we have a potential T. V. A. on our hands, or something like that. I mean, it is just every time I take a nibble at it, it gets worse - smells worse - so if you can get what those boys are doing over there, then the thought - I've got an idea besides that." (p. 5)

"H.M.Jr: ***

Triple confidentially, the thing I had in mind was this: This thing is sour as it is and the New York Stock Exchange - if we could hit the New York Stock Exchange, "Here's the Trans-America listed, and if you fellows want to do something - have you got the guts to go after Trans-America and kick them off?" That's what I've got on my mind. "Have you got the guts to do that?" That is their job. "Have you got the guts to go and investigate Trans-America, and if it's as sour as I know it is, to give them a delisting?" (p. 6)

18. March 14, 1938 - Messrs. Foley and Sherbondy discussed the Transamerica situation at lunch with Messrs. Allen Throop and Robert E. Kline of the SEC. Mr. Throop gave Mr. Foley a copy of a letter from Mr. Throop, as General Counsel of the SEC, to Mr. Neblett, of counsel for Transamerica, in which Mr. Throop advised that his office could not render an opinion that the proposed distribution of the Paganucci stock could be effected without prior registration. Copy of Mr. Throop's letter.

19. March 21, 1938 - Secretary's staff meeting. The following quoted from the minutes:

"H.M.Jr: (To Mr. Upham) Did you get the report on the holding companies?

"Upham: It camein about noon Saturday.

"H.M.Jr: Are you going to go to work today?

"Upham: I am speaking of the principle of their report.

"H.M.Jr: The report of the Trans-America?

"Upham: The auditing firm puts in so many exceptions - that they didn't see this and they didn't see that, and on the basis of what was presented to them, it looks all right.

"H.M.Jr: At least you got it?

"Upham: Yes.

"H.M.Jr: It must mention the holding companies of Trans-America; doesn't it list those?

"Upham: Yes.

"H.M.Jr: You could check that against the bank.

"Upham: Surely. (pp. 11 and 12)

20. April 1, 1938 - Letter (copy not dated, but apparently April 1, 1938) from Mr. Giannini to Mr. Crowley in which he requested that the application to establish the branches of the Central Bank of Oakland be approved, and further stated that he would discuss with Mr. Crowley the question of additional capital for the Oakland bank at the California State Bankers Association meeting in May.

21. April 1, 1938 - Letter from Mr. Crowley to Mr. Giannini agreeing to permit the establishment of the four branches of the Central Bank of Oakland with the understanding that no more banks would be acquired by the Oakland bank without first getting the permission of the FDIC, and that the matter of additional capital would be discussed.

22. July 8, 1938 - Excerpts from memorandum prepared by Mr. Upham covering meeting at 10:30 a.m. of Messrs. Taylor, Diggs and Upham with the Secretary:

"Mr. Morgenthau said that he was sick and tired of hearing about Giannini and the German credits and the fact that he wouldn't do what the Comptroller wanted him to do and said that he thought the Comptroller's Office ought to handle it without bringing it to him. He expressed the opinion that the people in the Comptroller's Office and the FDIC as well were "sissies," or they would do something about it. He said that he felt that Mr. Giannini was awfully smart from his own standpoint but he thought the bank supervisors ought to be equally as smart. Mr. Morgenthau gave as his offhand opinion that the Bank ought either to increase its capital or cut its dividends in half. (p. 2)

* * *

"Mr. Morgenthau said on second thought that he was inclined to the view that the Comptroller ought to insist on the Bank taking whatever house-cleaning steps were felt to be necessary and that if they do, he would then treat them just like any other bank and agree to RFC money going into the Bank on the same basis that they put it into other institutions. If not, he said he would personally be inclined to 'sit still until Hell freezes over' before doing anything in the way of permitting additional branches. In any event, he said he would make no promises on branches but let them come to see us when they have complied with our requirements.

"Mr. Upham reminded Mr. Morgenthau that he had requested the Comptroller's Office to bring in a program of minimums that they would insist upon. Mr. Diggs said that this program was not ready but that it would be in three or four weeks when the latest report of examination comes in." (p. 3)

23. September 21, 1938 - Memorandum from Mr. Upham to Mr. Oliphant in which Mr. Upham stated that on many occasions, between March 1938 and September 1938, the Secretary had asked him to inquire about aspects of the Bank of America situation and to press for action based on examination reports. Upon many occasions Mr. Upham brought those requests to the attention of the Comptroller's Office.

COPIES OF HEARINGS BEFORE SUBCOMMITTEE OF THE HOUSE COMMITTEE ON APPROPRIATIONS RELATIVE TO TREASURY DEPARTMENT APPROPRIATION BILL FOR 1939 EXHAUSTED.

GROUP MEETING (SECRETARY ABSENT)

January 19, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Gaston
Mr. Lochhead
Mr. Bell
Mr. Upham
Mr. McReynolds

Magill: Have you (Taylor) got anything else on your mind or conscience?

Taylor: No. Both of them are blank this morning.

Magill: Herbert?

Gaston: Well, I had a request from the principal of a junior high school out in Montgomery, Maryland, for a speaker from the Treasury Department to go out and talk to the students for half an hour....

Magill: That's Mr. Taylor.

Gaston: ... on functions of the Treasury Department.

Magill: That's Mr. Taylor.

Taylor: Get somebody to read that fine speech.

Gaston: You're the boy.

Taylor: I'm not going to read it again.

Gaston: You assign somebody, will you?

Magill: That's right. We have a fine speech, haven't we?

Gaston: That's a fine idea. That ought to be done.
(McR comes in)

Magill: I don't think that Mac gets out enough.

Gaston: He'd be the ideal man to do it.

Magill: Mac is very well known in Tennessee and Michigan, I understand, and ...

Gaston:	He should be better known in ...
McR:	Also Kansas, Oklahoma, Texas, and California.
Gaston:	... in Montgomery County, Maryland.
Magill:	Montgomery County, Maryland. I'd like to see Mac go over there wearing his shad-belly coat.
McR:	Who's got a dirty job now?
Gaston:	All you have to do is go out and talk to the students of the Montgomery Hills Junior High School, Montgomery County, Maryland, for half an hour.
McR:	Don't know anything about Maryland.
Upham:	Explain the Treasury to them.
Gaston:	Well, I think Gene Sloan is the man.
Lochhead:	Try to sell them some Baby Bonds.
Gaston:	Don't you think Gene Sloan is the man, Wayne?
Taylor:	Either Gene or Jim Bryan, either one.
Upham:	Baby Bonds for baby.
Magill:	Might send Clarence Opper and let him get a reputation before he goes on the Board.
Gaston:	That's an idea.
Taylor:	You can use that speech all over again any time, because nobody's used it since September, whenever it was.
Magill:	Always new and fresh.
	Is that all, Herbert, that's troubling you these days?
Gaston:	I don't know of a thing.
Lochhead:	Well, the French cabinet seems to be safe for this morning, at least, and the francs are holding steady.

In fact, they apparently are gaining a little gold over there this morning.

Most of the comment seems to be that it's rather a wishy-washy cabinet, may curl up .....

Magill: What's a wishy-washy cabinet? I noticed that, but I wondered what it was.

Lochhead: Well, just what it sounds like.

Upham: Swaying in the breeze, huh?

Lochhead: One interesting thing today is on the transactions in domestic stocks executed for account of foreigners. Great Britain, Netherlands, and Switzerland purchased, but France showed up as a seller to the tune of about a million dollars. Rather large for France.

Taylor: Repatriation?

Lochhead: I would like to feel it was a flow of funds back to France. We'll watch, I think, for another two or three weeks. But the fact is it did show up as a sale yesterday.

Magill: England is still buying.

Lochhead: England is buying, Netherlands and Switzerland still buying, but France showed up as a seller.

Magill: There was some story in the Wall Street Journal about foreign funds going into English investment trusts this morning.

Lochhead: In English investments I imagine it'd be the same as in our funds. Lot of those funds over there will go in short-term government obligations. I don't think a lot of that money will go in for a long pull over there just now. I imagine just short-term investment ....

Magill: Weren't many dealings in exchange yesterday, though, were there?

Lochhead: No.

Magill: Cy, how's the Committee?

Upham: You saw Duffield's article this morning, did you?

Magill: Yes. I thought I'd send that to O'Donnell and ask him to what extent he's taken it into account. Of course, the only criticism I noticed was that Duffield observed that what he had said about corporate dividends was not taken into account in these computations.

Upham: Page 2, Herbert, first column.

Magill: Of course, as I get it from O'Donnell, those effective rates that they use there are practically meaningless because of the different composition of different companies' income.

Upham: Yes.

Magill: Yes. But if we're going to lose a lot of money, we might as well know it.

(Bell comes in)

Good morning, Dan.

Bell: Good morning.

Magill: Well, you (Upham) might speak to O'Donnell, or I will, and tell him, "What about it?"

Upham: Yes.

Magill: Danny, what have you got on your conscience?

Bell: Haven't got a thing, Ros. Everything's quiet along the Potomac.

Magill: What are these changes in the Post Office appropriations that they made?

Bell: I really don't know.

McR: Added - they did three things. They added two million dollars - they authorized an increase in the Post Office employees' pay.

Bell: Clerks.

McR: And carriers. They authorized the payment by the Government of equipment for third class offices. And - oh, let's see, something else - I forgot what the third one was. Relatively small item. The big item was increasing the pay of the ....

Bell: Two million dollars. See, the Sub-committee had clipped a couple million dollars off the clerks' pay, and they've got a pretty strong organization and they got behind it immediately and offered an amendment to restore that, and it went through like greased lightning, as usual.

McR: Always does.

Bell: Yes, always does.

McR: They've got the largest single group of organized employees, and the oldest one, in the postal service, and their organization has almost tripled the pay of Post Office clerks and carriers in the last twenty years.

Bell: And the 40-hour week on top of it. Added about 40 million dollars to the postal bill.

McR: In other words, they've made the pay of a letter carrier on the street - they've brought that from - let's see, way back when I first began fussing with it about 1910, the average pay of the carrier was about $720, and it is now pretty close to $2100, and that is due largely to the organized efforts of that particular group. And they always get it; whatever they ask for they get pretty near as consistently as war veterans, because they've got a big group and they're spread all over.

Magill: How about our own part of the bill?

McR: They didn't do anything to that.

Bell: I don't think they hurt it.

McR: They didn't do anything to it at all on the floor; they didn't change it at all.

Bell: Took out some public building stuff in the Committee.

McR: Well, they took out that money for the Printing Office.

Bell: Yes, two million three.

McR: On a point of order. That'll probably be put back.

Bell: One thing that they have left out of the Treasury bill which is important not for the Treasury as an operating agency, but from the finances, and that is this enlistment gratuity which is given to the Coast Guard, Navy, Marine Corps, and Army. When the soldier's term of enlistment expires, they give him a gratuity to re-enlist, and we have been successful in getting that eliminated every year since 1933. Heretofore the Committee has never left it out, they've always put it in, but it's gone out on the floor; then we've restored it in the Senate. This year the damn Appropriations Committee left it out. That will cost us about six million dollars.

Magill: Left out what?

Bell: Left it out of the Treasury bill. It's put in the Treasury bill but it applies to all the other services. That is, they eliminate that gratuity by legislation in the Treasury Appropriation bill.

Upham: They put in a section eliminating it.

Gaston: You mean there's a general law giving it to all the services and it has to be eliminated by specific provision from the Treasury bill, which they didn't include.

Bell: Put in the Treasury bill because it's usually the first one that goes through and it has the Coast Guard in there, so they put it in there, and it applies to the other services.

Magill: They eliminated the provision eliminating the gratuity. The double negative had me bothered. "ell, anyway, we now are going to pay a gratuity.

Bell: That's right. It will cost us about six million dollars, unless I can get somebody to fight it in the Senate and get the provision put back in prohibiting the payment of the gratuity.

Gaston: How much is it for re-enlistment per sailor?

Bell: I really don't know, but it will cost about six million dollars for the four services.

Magill: Well then, they must have taken off some similar ammount some other place. I notice the bill is two million under the budget.

McR: They didn't add anything.

Bell: That will make it necessary for us to submit a supplemental appropriation.

Upham: You'll have another chance in the War Department bill.

Bell: Oh yes. But the Committee has spoken; apparently they're against it.

Lochhead: One other item where they cut down on the expenses - that $29,000 which we generally figure is used for collecting information by the Federal Reserve Banks and for foreign exchange information. You remember they combined them all and then dropped it by the exact amount, $29,000, which looks as if they don't like to pay the Federal Reserve Bank anything.

(Phone rings)

Magill: (On phone) Hello. - Hello. - Good morning, Henry. - Pretty good. How are you feeling? You're not on the loud-speaker; do you want to be? - Yes. You be careful what you say from now on. Archie is getting her all warmed up. - - Well, I don't - there doesn't seem to be any great amount of newsaround here. Archie will have some for you. Shall we start with him? - -

Here, Archie.

Lochhead: (On phone) Good morning. - The French cabinet seems to be going through about the way it was set up yesterday. There is no particular comment. A lot of them seem to think it is rather weak, but, on the other hand, the market has taken it rather calmly and the francs are steadying. They are holding at about $.0336. And they say that they are possibly gaining some gold today. Sterling is holding steady around five dollars. And the one interesting part about securities is the fact that Netherlands, Switzerland, and Great Britain are buyers, but France went on the selling side yesterday for about a million dollars. (Loud-speaker on)

H.M.Jr: I see.

Lochhead: Now, it may be just some temporary situation or it may possibly be some funds going back.

H.M.Jr: Uh-huh.

Lochhead: But it's the first time France has showed up in any considerable amount.

H.M.Jr: I see.

Lochhead: That's all on the general market here.

H.M.Jr: Well, I see they're going to have a vote on Friday afternoon.

Lochhead: Possibly on Friday. Certainly not any earlier than that. And from some talk it may be held over until Tuesday. So they'll probably get some little breathing spell in the meantime; if the exchange market remains quiet, it may give them a little more confidence.

H.M.Jr: All right.

Lochhead: Now, do you wish to speak to ....

H.M.Jr: I want to talk to Taylor.

Lochhead: Mr. Taylor.

Taylor: Hello.

H.M.Jr: Hello, Wayne.

Taylor: Yes, Henry.

H.M.Jr: The only thing that bothers me is if Comptroller O'Connor has gone west ...

McR: He hasn't.

Taylor: He hasn't.

H.M.Jr: He has not? Oh. I don't know where I got it yesterday that he had.

Taylor: Well, we weren't sure whether he was planning to or not.

H.M.Jr: Well, you know, on the - that's under you, isn't it?

Taylor: Oh, I see it once in a while.

H.M.Jr: Why don't you see him and see what's going on? After all, he's got a couple new men. Have you met them, do you know them?

Taylor: Oh yes. In fact, I helped to officiate in your absence.

H.M.Jr: What?

Taylor: I helped to officiate in your absence.

H.M.Jr: Oh, did you?

Taylor: Yes.

H.M.Jr: Tell me - well, you'll see them in connection with drafting this message.

Taylor: Yes.

H.M.Jr: I read Arthur Krock in Monday's Times* and I see that he's given - says doing away with bank holding companies is a blessing.

Taylor: Yes.

* New York Times of Tuesday, Jan. 18

H.M.Jr: And I also see that I am very conspicuous by my absence. Very amusing.

Taylor: Yes, I read the article.

H.M.Jr: I mean if it was another gentleman it would have been the most marvelous idea in the world.

Taylor: Well, that's possible, very possible.

H.M.Jr: I mean so difficult to write it and still not say that I suggested it.

Taylor: Yes, I thought it was a very talented job.

H.M.Jr: Yes. It's all right. But now that he gives it his blessing, it may ......

Taylor: Yes.

H.M.Jr: And O'Connor ...

Taylor: I'll see him today. I've been sort of talking to him from time to time here.

Now, there's one thing that there is a slight crossed wire on; that is on this Savings Bond advertising.

H.M.Jr: Yes.

Taylor: Now, having thought it over and having gone over that testimony ....

H.M.Jr: Who did?

Taylor: Having thought it over and having gone over the testimony and the statement of the Committee ....

H.M.Jr: Yes.

Taylor: ... I think that the plan is not to fight it.

H.M.Jr: Not to fight it?

Taylor: Yes, and use that as a springboard to make a statement in the interests of economy and how glad we are to cooperate, but also reserve a position that if in the future we want to go back and do it again, why, we're going to make an urgent plea to do it; but not at this time.

H.M.Jr: Of course, I'm at a tremendous disadvantage in that I haven't seen the testimony, see?

Taylor: Well, they've specifically picked out advertising.

H.M.Jr: Well, I tell you what I'd like you to do. I wish - is it very much reading?

Taylor: No.

H.M.Jr: Well, I wish you'd send it airmail and find out when the plane goes. I think the plane leaves at noon; I'm not sure.

Taylor: We'll get it down to you as fast as we can. As a matter of fact, we could wire it down. It isn't very long.

H.M.Jr: Why not wire it?

Taylor: Yes.

H.M.Jr: I'd send it on the wire.

Taylor: The reason I particularly think so is because the answers to the question that we have been sending out to all our purchasers indicate that other mediums than magazine advertising have been the most effective.

H.M.Jr: Other than?

Taylor: Yes.

H.M.Jr: Uh-huh. Well, I wish you could give me some facts and figures. When will you have to appear before them?

Taylor: Well, it'll be very quickly. Probably next week.

H.M.Jr: Out of $100 sold, how much was sold from magazines? I don't remember those figures.

Taylor: You can't tell that, but we do know ...

H.M.Jr: How much they credit the magazines.

Taylor: Well, we can show you that, but it isn't a convincing figure - these results of this questionnaire, which haven't been complete tabulated, naturally, but throw quite a bit of light on that.

H.M.Jr: Well, put it in a telegram and send it down, because an airmail letter sent to me Monday - I only got it this morning.

Taylor: I think we better wire it to you.

H.M.Jr: And the Western Union girl is terribly disappointed; she hasn't had a good telegram yet from the Treasury.

Taylor: Well, we'll answer that problem, then.

H.M.Jr: All right. I'd send it down, and - I mean just put as much into it as you want to.

Taylor: O.K.

H.M.Jr: But I don't know what our boys said. I don't know what they testified or anything else. I'm completely in the dark. I don't know what members of Congress said.

Taylor: Well, I don't think - I mean our boys only said what you'd expect, and the Committee report, however, specifically picked out that item.

H.M.Jr: Is it a majority report?

Taylor: Yes.

H.M.Jr: What?

Taylor: Yes.

H.M.Jr: It is? And they specifically mentioned advertising?

Taylor: Yes.

H.M.Jr: Uh-huh. Well, get the stuff down and let me look at it.

Taylor: O.K.

H.M.Jr: I mean I'm not - my temperature on that is normal. I won't get excited either way.

Taylor: Right.

H.M.Jr: But you'll talk to the Comptroller.

Taylor: I will.

H.M.Jr: All right.

Taylor: Right.

H.M.Jr: Let me talk to Bell.

Taylor: Just a minute.

Bell: Hello. This is Dan.

H.M.Jr: Good morning.

Bell: I thought you might be interested in the employment figures. On January 8 the mail reports indicated that they had a million, 712.

H.M.Jr: A million ...

Bell: ... 712.

H.M.Jr: Yes.

Bell: They had telegraphic reports for the 15th; of course, they contain large estimated figures; and that showed a million, 767.

H.M.Jr: A million, 7...

Bell: ...67.

H.M.Jr: Yes.

Bell: And our estimated average for January, you recall, was a million eight.

H.M.Jr: I see.

Bell: And February a million nine. So we're past the middle of the month and we haven't gotten up to the million eight yet, which is pretty good.

H.M.Jr: And that's for the week ending last Saturday.

Bell: Yes, the million, 767 is for the week ending last Saturday.

H.M.Jr: Are those figures the ones they always get on Tuesday?

Bell: Yes, sir, that's right. These are telegraphic.

H.M.Jr: I see. Well, that's all right, isn't it?

Bell: Fine, yes. They'll have to exceed a million eight by the end of the month in order to get the average.

H.M.Jr: Well, we allow it to go to a million nine next month, don't we?

Bell: February, a million nine, yes, sir, and March a million eight. I have an idea that what you'll find it doing is that it won't be quite so high in February as an average, but a little higher in March; it will level off there.

H.M.Jr: Anything else?

Bell: That's all.

H.M.Jr: How about our working balance?

Bell: 939 million, of which 144 million is in Federal Reserve Banks, 795 in the special depositaries.

H.M.Jr: 144 Federal.

Bell: That's right.

H.M.Jr: What are the excess reserves?

Bell: Do you (Taylor) know?

Taylor: Billion two.

Bell: About a billion two, I think. Increasing a little.

H.M.Jr: Anything exciting otherwise?

Bell: No, very quiet.

H.M.Jr: You're staying home every morning, I see.

Bell: Yes.

H.M.Jr: Good. Silly not to.

Bell: Well, I had an appointment this morning at nine o'clock. Couldn't do it. I'll stay home next week.

H.M.Jr: All right.

Bell: Ros is on the phone.

Magill: Henry, I thought you might be interested to know I had a lunch yesterday with Bill Douglas.

H.M.Jr: Oh yes.

Magill: And do you want a little on it?

H.M.Jr: Very much so.

Magill: Well, I wanted to know what a holding company is. Well, a holding company is a holding company that is not subject to public regulation.

H.M.Jr: Say it slowly.

Magill: It's hard to get it early in the morning. A holding company - the holding company that is being aimed at - let's put it that way - is a holding company which is not otherwise subject to public regulation. And I said - you see, "otherwise subject to public regulation" would be a railroad holding company, public holding company, something like that; be a public utility holding company, as far as that's concerned. I said, "What about such things as General Motors and A.T.T., that are partially holding companies and partially operating companies?" He said, "Well, I don't think they should be affected." But the whole thing looked as if it were very much in the discussion stage. Well then ....

H.M.Jr: How active have they been, Ros?

Magill: I think he personally has been fairly active.

H.M.Jr: What?

Magill: I think he personally has been fairly active.

H.M.Jr: You do?

Magill: Yes. Then he said he had some stuff on Trans-America.

H.M.Jr: On what?

Magill: On Trans-America.

H.M.Jr: He volunteered that?

Magill: Yes. And he said, "I'm thinking of sending it to Jefty O'Connor."

H.M.Jr: Yes.

Magill: "Well," I said, "he isn't in the Treasury. Why don't you send it to the Secretary?"

H.M.Jr: Yes.

Magill: He said, "All right, I'll do that. I don't know where to send it, but I'll send it wherever it should go." He said, "It's fragmentary, but it looks very bad."

H.M.Jr: Yes. Well, I'd like to have it.

Magill: Yes. Well, that's about ...

H.M.Jr: Now, is Trans-America subject to regulation?

Magill: No, I wouldn't think so.

H.M.Jr: No other than the New York Stock Exchange.

Magill: I wouldn't think so, within what he was talking about.

H.M.Jr: Well, that's interesting.

Magill: I think he's been doing quite a little work on it.

H.M.Jr: What else?

Magill: That was all on that. He had various things to say about the dissolution of public utility holding companies in connection with the tax bill.

H.M.Jr: I see.

Magill: But that's a separate, rather technical, issue. It's rather amusing, because what they have in mind is to give public utility holding companies better treatment than they are getting now under the tax bill.

H.M.Jr: I see.

Magill: But that's what they propose.

H.M.Jr: Well, that's interesting.

Magill: He is also going to send a man up to the Hill to make some proposals to the Committee, the Ways and Means Committee, about investment trust legislation.

H.M.Jr: Oh, is he?

Magill: Yes, he wants to knock out the provision which is now in the law and in the proposed bill, respecting mutual investment trusts - these Boston trusts.

H.M.Jr: I see. He's throwing that out?

Magill: Yes, he says they either all ought to be on the same footing ....

H.M.Jr: Yes.

Magill: ... or else they ought to put through a provision which would give the same treatment that is now given to the Boston trusts to several other types of trusts.

H.M.Jr: I see.

Magill: But the first is what they are going to recommend: that the present exemption for the Boston trusts be kicked out of the bill.

H.M.Jr: Well, that's interesting.

Magill: Yes.

H.M.Jr: All right. Now, Harold Graves won't leave before I get back, will he?

McR: No.

Magill: No, he won't.

H.M.Jr: Because I want to go over what he's going to do in Los Angeles with him before he leaves.

Magill: He's gone over it with several people over there, and also with the Commissioner.

H.M.Jr: Well, I'd like to go over it with you and the Commissioner and Graves before he leaves.

Magill: Well, why don't we arrange that now before you return?

H.M.Jr: Yes.

Magill: Be glad to.

H.M.Jr: I thank you.

Magill: I guess that's all. Anyone else you want to speak to?

H.M.Jr: No.

Magill: All right. Good luck, Henry.

(Phone conversation ended.)

Magill: Well, that's all I know about. Will you do that, Mac? He said he'd like to see the Commissioner and Graves when he gets back. When was Graves planning to go?

McR: No definite date.

Magill: Well, of course, the Commissioner hasn't made up his mind yet, I suppose.

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON

OFFICE OF THE CHAIRMAN

January 21, 1938

[illegible]
Jan 26, 1938

My dear Mr. Secretary:

Pursuant to your request transmitted by the Hon. Roswell Magill, Under Secretary of the Treasury, I am herewith sending you, for your confidential use, a copy of a document relating to the Transamerica Corporation which was prepared in connection with the Commission's study of investment companies pursuant to Section 30 of the Public Utility Holding Company Act of 1935.

In order to obtain some data to determine whether the Transamerica Corporation was an investment company within the purview of Section 30, the Commission sent one accountant and one lawyer of its staff to San Francisco to make a cursory preliminary survey of the situation. This survey was not intended to be a comprehensive or detailed study of the activities or financial condition of the corporation or any of its affiliated banks or other organizations; but was rather a preliminary and limited inquiry into the history and nature of the corporation and was confined almost exclusively to the Transamerica Corporation. No examination whatsoever was made of any of the banks or other organizations affiliated with the Transamerica Corporation.

Since the survey of Transamerica Corporation was made only by two men for the purpose of obtaining some information as to the nature of that corporation and is based solely upon the books and documents furnished to the Commission's representatives by the officials of this corporation, the examination necessarily was superficial. No attempt whatsoever was made to check the accuracy of any of the figures contained in these books and documents or to analyse any of the transactions. The document being transmitted to you is, therefore, based solely on secondary information; has not even been checked back as yet to the supporting data in our files, and should be treated as being entirely tentative and preliminary in nature.

The document does not constitute in any way a report of the Commission and the fact that it is being transmitted to you should not be construed as an approval of its contents by the Commission.

We have the accountant's working papers, copies of the minutes of Transamerica Corporation and of certain other affiliated companies, and copies of the other documents upon which this summary is based. The Commission will be pleased to make this material and data also available for your confidential use.

The Commission is bending every effort to conclude its study of investment trusts and investment companies and to transmit its conclusions and recommendations to the Congress in the near future. The members of our investment trust study staff who have been in touch with matters feel that a complete understanding or analysis of the Transamerica Corporation could not be obtained except after a study of that corporation and of every bank or other organization affiliated with that corporation. The magnitude of the task of such a study, together with the limitations of staff and funds of the Commission, make it impossible for the Commission to undertake any further survey of the Transamerica Corporation group as part of the investment trust study.

If there is any additional information which you desire, please do not hesitate to call upon me.

Yours faithfully,

Wm O Douglas

William O. Douglas
Chairman

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

Confidential

Summary of Report
on Preliminary Survey of
Transamerica Corporation

Jan. 26, 1938

California and New York (1904-1928)

1. The Bank of Italy (a California state bank) was organized in 1904 with a capital of $150,000.
2. Between 1909 and 1917 it acquired 11 branches. Even these early acquisitions of branches were in circumvention of the State law. Giannini and other individuals would buy a controlling interest in other banks, (their operations being financed by the Crocker National Bank) and these banks would then be merged with Bank of Italy and turned into branches.
3. Beginning in 1917, the Stockholders Auxiliary Corporation was used in similar fashion as the medium for acquiring state banks to be converted into branches of Bank of Italy.
4. In 1919 Giannini formed the California Joint Stock Land Bank.
5. In 1919 Bank of Italy became a member of the Federal Reserve System.
6. In 1919 also Giannini formed the Bancitaly Corporation in New York to serve as the Giannini top holding company and to acquire New York banks for merger into an outstanding Giannini bank in the East.
7. In 1919 Bancitaly Corporation acquired the East River National Bank.

8. In 1919 Bancitaly Corporation acquired Capital Company, a California urban real estate holding company.

9. In 1919 Bancitaly Corporation acquired a bank in Naples, Italy.

10. In 1924 Americommercial Corporation was formed by Stockholders Auxiliary Corporation.

11. In 1924 Bancitaly Corporation acquired Commercial Trust Company in New York and merged it with East River National.

12. In 1925 Bancitaly Corporation acquired the Bowery Bank and merged it with the East River National.

13. Between 1917 and 1924 Giannini, acting through Stockholders Auxiliary Corporation and Americommercial Corporation (and to some extent through the Bancitaly Corporation) acquired 124 banks and converted them into branches of the Bank of Italy.

    (During this period, although the SEC report does not mention it, considerable sentiment against Giannini grew up among the bankers of California, and there were many complaints about his methods in forcing them out of business and into Bank of Italy as branches. Some banks were forced to sell at low prices; for others high prices were paid.)

14. Later Bancitaly Corporation acquired the Pacific National Fire Insurance Company and the Bankitaly Agricultural Credit Corporation.

15. In 1927 Bancitaly Mortgage Company was formed.

16. In 1927 the name of Stockholders Auxiliary Corporation was changed to National Bankitaly Corporation.

17. In 1927 the Bank of Italy took a national charter and became the Bank of Italy, National Trust and Savings Association.

18. During this period Bancitaly Corporation acquired a number of California banks, most of which were merged to form the Bank of America in Los Angeles. These operations resulted in mergers into the Bank of Italy, N.T. and S.A. following the enactment of the McFadden Branch Banking Act, and a new method was used to avoid the restrictions of that act on branch banking by national banks.

19. During 1926 and 1927, Bancitaly issued many of its own shares in exchange for shares of banks acquired, with repurchase agreements at prices substantially above the market, to mature in a period of about a year. Thus a constant rise in price of the stock, encouraged by market operations, was necessary to the growth of the organization. The market operations were conducted through National Bankitaly Company (the affiliate of the Bank of Italy, N.T. & S.A.) who derived profits from trading in the shares of Bancitaly Corporation of $9,725,245.41 and $3,371,455.50 for 1927 and 1928, respectively. Bancitaly Corporation, in turn, operated the trading activities for shares of the Bank of Italy, N.T. & S.A. and Banca D'America ed' Italia. Such trading resulted in net profits to Bancitaly Corporation as follows:

Security	Total	1927	1928
Bank of Italy, National Trust and Savings Assn.	$39,795,284.50	$26,861,218.33	$12,934,066.17
Banca d'America ed' Italia	6,494,041.23		6,494,041.23
	$46,289,325.73	$26,861,218.33	$19,428,107.40

It is quite apparent from the above that there must have been an enormous amount of trading in the shares of these affiliated companies to effect such large profits.

Acquisition of Bank of America, of New York.

20. As a beginning toward a real Wall Street bank, Giannini acquired in 1928 through Bancitaly Corporation 33,244 shares of Bank of America.

21. He wanted to consolidate East River National, Commercial Exchange Bank (apparently acquired in the meantime) and Bank of America.

22. Morgan and the Delafield interests agreed to Giannini's entrance into Wall Street.

23. The New York Clearing House and the Federal Reserve Bank of New York approved the deal if Bancitaly Corporation would dispose of all but 20 per cent of its projected holdings in the consolidated bank. Later they compelled Bancitaly Corporation to agree to dispose of all of the shares to be owned under the consolidation.

24. Bank of America, N.A. and Bankamerica Corporation, a security affiliate, were formed, Bancitaly Corporation received 514,207 shares of the 1,000,000 shares of the new bank, paying $103.73

per share and with plans to dispose of 500,000 shares at $225. a share, and thus make a gross profit of some $60,000,000 out of the merger.

25. 300,000 shares of the new bank were offered to the shareholders of Bank of Italy, N.T. & S.A. and of Bancitaly Corporation and 200,000 shares were to be sold to National Bankitaly Company for sale to the public through the bond department of Bank of Italy, N.T. & S.A.

26. Bear raids began in June, 1928 on the stock of Bank of America, N.A., and it fell in one day from 250 to 148. Some of the buyers of stock at the offering price of $225 repudiated their purchases and the $60,000,000 expected profit was reduced to $22,000,000.

(The Bancitaly Corporation claimed taxable profit of $6.3 million; the Commissioner of Internal Revenue claimed $41.4 million.)

27. Bancitaly Corporation was left with 43,000 shares of Bank of America, N.A. which it transferred to Capital Company and a reacquisition of shares of Bank of America, N.A. by the Giannini interests was begun, apparently without interference this time by the New York Clearing House or the Federal Reserve Bank of New York.

The Formation of Transamerica

28. Reputed bear raids in June, 1928 on stock of Bank of Italy, N.T & S.A. and Bancitaly Corporation showed their vulnerability and led

to the formation in October, 1928 of Transamerica Corporation. They also influenced shareholders of Bank of Italy, N.T. & S.A. and Bancitaly Corporation to exchange their shares for shares of Transamerica Corporation, so as to give it 99 per cent control in both the bank and the investment company.

29. Transamerica Corporation also acquired, through Capital Company and Bankitaly Company of America (successor to Bancitaly Corporation) by the end of 1929, nearly 730,000 shares of Bank of America, N.A. Of these 558,254 shares were acquired by exchange on a basis of unrealized loss to the sellers of $34.50 a share.

30. In 1928, Transamerica Corporation, in exchanging its shares for those of Bank of Italy, N.T. & S.A., and in forming Bankitaly Company of America (to take over Bancitaly Corporation and National Bankitaly Company), wrote up on its books the value of the new securities over the old by more than $600 million.

31. In April, 1929, Giannini interests became affiliated with Blair & Company, Inc., headed by Elisha Walker. Bancamerica Corporation became Bancamerica-Blair Corporation. The Blair interests received an unrealized profit of some $46 million from this deal, referred to in the report as "excessive consideration."

32 In 1929 the Transamerica group realized trading profits of about $56,000,000. To increase trading profits, Intercoast Trading Company was formed but after the market crash was taken over by

Inter-Continental Corporation, with a loss of about $25,000,000 to stockholders.

33. As of the end of 1929 Transamerica Corporation showed investments in affiliated and controlled companies aggregating $1.1 billion and approximate resources of $2.3 billion.

34. In 1930, Transamerica Corporation acquired more than 50 per cent of the stock of The First National Bank of Portland, Oregon.

Walker replaces Giannini

35. In 1930 Elisha Walker of the Blair group, became the head of Transamerica and Giannini retired.

36. Walker and his Blair Associates had to turn in the 131,658 of the shares of Bank of America, N.A. (which they had received in 1929 at a nice profit in the Blair & Company merger) for Transamerica stock. A special corporation called General Enterprises, Inc. was formed for the express purpose of making this exchange.

27. It should be noted that 129,525 of the 131,658 shares came from 13 personal holding companies which had been formed by the Blair partners--seven in Newfoundland, two in Quebec, two in Panama and two in Guernsey.

38. Here again the Blair interests made money, the exchange netting them an excess market valuation of $11.5 million.

39. Moreover, while at this time the Blair partners were given 5 shares of <u>Transamerica</u> for each share of <u>Bank of America, N.A.</u> the general public was being offered only 3 shares of <u>Transamerica</u> for each share of <u>Bank of America, N.A.</u>

40. When Elisha Walker took over <u>Transamerica</u> management a new policy was agreed up which embraced, among other things:

A. Development of nation-wide branch banking.

B. Acquisition of foreign banks.

C. Expansion in the insurance field.

D. Acquisition of stocks of industrials and public utilities.

E. A directorate representing national and international industrial interests.

F. Listing of <u>Transamerica</u> stock in London, Paris and New York.

G. A profit sharing plan for officers.

<u>Walker-Giannini contest for control.</u>

41. Giannini soon became dissatisfied with Walker's policies and in 1931 and 1932 engaged in a proxy fight with Walker, in which Giannini regained control of <u>Transamerica</u>.

42. When it is considered that at the period of the proxy fight there were approximately 248,000 stockholders in <u>Transamerica Corporation</u>, three-fourths of whom were residents of California, and that added to these, there were 12,000 employees of the group, together with over 2,500,000 depositors in the controlled banks, it can easily be seen that " . . . <u>Transamerica</u> with its 248,000 stockholders is more than a private enterprise. It is a great semi-public institution." (Front page editorial, San Francisco News, December 19, 1931.)

43. Giannini's policies had been based on expansion, a managed market in his securities, close control, and a liberal dividend policy. A rising market was almost essential to his activities.

44. Walker found a declining market, reduced values and earnings, an inflated Transamerica with complicated interrelationships, and a generally depressed and baffling situation. Dividends were cut, spreading dissatisfaction.

45. In a shift of policy on earning emphasis, Walker played down banking and stressed participation in industrial enterprises. Banks were to be disposed of and nation-wide branch banking forgotten. This precipitated the proxy fight.

46. In 1931 the Bank of America, N.A. was sold to the National City Bank of New York, Transamerica getting about 9 per cent of the stock of the National City.

47. Through 1930 and 1931 Walker was engaged in reorganizing the various Transamerica companies, selling securities, liquidating bank loans, writing off losses, and generally consolidating position. There were formed

Transamerica Bank Holding Company
Transamerica Service Company
Transamerica Public Utility Holding Company
Transamerica Insurance Holding Company
Transamerica Mortgage Holding Company
Transamerica International Corporation

48. In 1931 Transamerica wrote down its investment in controlled and affiliated companies on the basis of their net asset value. The total write down exceeded a billion dollars.

49. In February, 1932, Giannini resumed control.

50. Giannini resumed his branch bank expansion, and has acquired branch bank system in Oregon, Washington, Nevada (and Arizona). Many new branches of Bank of America, N.T. & S.A. in California have been acquired.

51. Dividends which had been suspended in 1931 were resumed in 1934.

52. Accounting methods were again changed to enable profits in security transactions and in security holdings to be shown and to be available for dividends.

53. Profits on sales of securities which had been written down in 1931 totalled \$4.3 million in 1932-36, one tenth of the total income for the first five years of Giannini's new control is thus accounted for by profits on sales of written down securities.

54. In 1937 Transamerica holdings of Bancamerica-Blair Corporation were distributed to avoid registration as a public utility holding company under the 1935 Act.

55. In 1937 58 per cent of Transamerica's holdings of the stock of Bank of America, N.T. & S.A. were distributed to Transamerica stockholders in an attempt to bring it out from under the Federal Reserve Act definition of bank "holding company affiliate."

56. The several holding companies are being collapsed and other companies dissolved in a "simplification" move.

57. "In 1930 and the early part of 1931, when, at the demand of the National Bank Examiner, \$35,000,000 of unbankable assets were taken out of Bank of America N.T. & S.A. by Corporation of America, \$7,800,000 of these assets, represented by city realty, were taken over by Capital Company at carry value. However, this deal, transacted on the books of the participating companies as of February 28, 1931, was rescinded on May 6, 1931."

58. "There are indications that Occidental Life Insurance Company besides selling to Capital Company those real estate holdings which showed a loss, purchased mortgages from Capital Company--thus supplying the latter company with funds to take over the insurance company's realty."

59. "The following statement of shrinkage of capital paid-in shows, subject to notations thereon, that of a total net capital paid-in of $1,536,782,124.35, (including stock dividends of $378,725,500.00) there was the enormous shrinkage of 88.12% or $1,354,362,467.31. Thus the adjusted paid-in capital as of December 31, 1936, amounted to the sum of $182,419,657.04."

60. The minutes of some of the companies in the Transamerica group indicate the extent of the control of Mr. Giannini over the group:

"Upon motion of Director Hecker, seconded by Director Weller and duly carried that President A. P. Giannini be given authority to act in the matter of establishing interest rates to be charged by banks owned by the Stockholders Auxiliary Corporation to the different business enterprises for the coming season."

- Stockholders Auxiliary Corporation Minutes
  Board Meeting June 8, 1920.

"RESOLVED: that Mr. A. P. Giannini's actions in the purchasing of stock of various banks and other corporations and of real estate, be approved."

- Bancitaly Corporation Board Meeting Minutes
  December 5, 1923

And, in connection with an issue of 100,000 new shares of Bancitaly Corporation authorized at the end of 1925:

"38,916 shares thereof to A.P. Giannini, the undersigned President of the Corporation, at the price of $300 per share, in order to enable him to restore borrowed stock to stockholders and to make such other adjustments as may be necessary in the matter of the recent more or less successful efforts which he, on his own initiative and responsibility, but for the best interests of the Corporation and its stockholders, put forth to hold the market value of the stock within reasonable bounds."

Bancitaly Corporation Board Meeting Minutes, December 28, 1925.

"On motion duly made and seconded, A. P. Giannini, President, was authorized to reduce the par value of the stock and declare such dividends as he might deem proper."

61. "It is difficult to trace the full amount of payments made to A. P. Giannini, but it would appear, that exclusive of the $1,500,000 paid to the University of California, at least $3,765,157.69 was paid to him during the period from 1925 to 1936 inclusive."

62. "From the above, it would appear that the consolidated balance sheet thus presented does not follow the orthodox method of consolidation."

63. "In view of the small cash position, the pledging of a large part of the assets, and the possible inability to dispose of readily, the remaining free marketable securities, it would seem Transamerica Corporation with its consolidated subsidiaries is in a somewhat unliquid position."

64. "With a somewhat depleted cash position and taking into account current revenues, it may be that Transamerica Corporation will have to borrow from its affiliated banks."

65. Capital Company and California Lands Company, Inc. owe Bank of America, N.T. & S.A. $51.6 million for real estate purchased from them under long-term contracts and mortgages assumed. (Of the $51,616,432.78, $42,384,123.79, is due to the Bank of America, N.T. & S.A. for purchases as related previously to relieve the bank of frozen real estate owned by it.)

66. Capital Company and California Lands Company, Inc. have a reserve for depreciation and revaluation of $11,896,398.14. "This amount is equal to 14.35% of the total book value of $83,907,771.33. It would seem that the rate of 14.35% is exceptionally low considering the drastic decline in real estate values, particularly when compared with the average per cent of loss on real estate sold by Capital Company and California Lands, Inc. during 1935 and 1936 which was 22.84%. On the hypothetical basis of 22.84% of a total carrying value of $82,907,771.33 for real estate owned, the reserve for depreciation and revaluation would be $18,936,134.97. The $18,936,134.97 compares with a reserve for depreciation and revaluation provided of $11,896,398.14 or a deficiency in the reserve of $7,039,736.83."

67. "That substantial trading activities were conducted in the capital stock of Transamerica Corporation and its subsidiary and affiliated organizations is evidenced by the fact that at December 31, 1929, the various subsidiaries of Transamerica Corporation were long 1,086,123.75-5/6 shares of that corporation at an average price of $61.29, having an aggregate book value of $66,578,201.01."

68. The New York Stock Exchange Committee on Stock List remonstrated with Transamerica Corporation for its activities in its own shares.

69. "the constant shifting of shares between companies." p. 132.

70. "the tremendous trading volume that took place in the shares of Transamerica Corporation by Transamerica Corporation and its subsidiaries and affiliated companies." p. 135.

BANK HOLDING COMPANIES

January 28, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Upham
Dr. Viner
Dr. Riefler
Mr. Jesse Jones
Mr. Eccles
Mr. Leo T. Crowley
Mr. O'Connor
Mr. Marshall R. Diggs
Mr. William Douglas
Mr. Opper

H.M.Jr: Good morning.

I asked Mr. Douglas whether he wouldn't sit in with us, inasmuch as this was a holding company matter and he's interested in securities.

We met about - I don't know whether - it was a month or so ago, and this question of bank holding companies was up. At that time I asked Mr. Jones whether he'd make a study for me, and I think everybody else has been making his own study, so that I - but I specifically asked Mr. Jones. I wonder if he would make a report.

Jones: My report, Mr. Secretary, I forgot to bring with me. I dictated it this morning; it's about half a page. And I knew it wouldn't stand up very well against Marriner's. In our organization we have been studying, getting all the information that we could to - that we ought to have to give consideration to this rather important problem. And while I have always been opposed to holding companies in principle, and especially as they apply to banks...

H.M.Jr: To what?

Jones: And especially as they apply to banks,....

H.M.Jr: Yes.

Jones: ... when we analyze how the banks came through the crisis, the so-called holding company banks, or group banks, probably will come out a little better on the whole than - relatively, I'd say - than individually-owned banks. That fact, however, doesn't alter my thought that - that the holding company is wrong in principle, and particularly as it applies to banks. And that's about what I would say if I'd write you a book on it. We've got figures to show - to reach all those conclusions, both from the R.F.C.'s record and experience and information we've got from the Federal Reserve and F.D.I.C. But that's about our idea on it. As I say, it doesn't change any my view that the thing is wrong in principle and there ought to be some way to bring it to an end.

H.M.Jr: Well, supposing we go around clockwise to those people who are in, so to speak, banking agencies, and see what they have.

Mr. O'Connor?

O'Connor: Well, I think Mr. Jones has stated the thing as well as I can, Mr. Secretary.

H.M.Jr: What?

O'Connor: I think Mr. Jones has stated it very well.

H.M.Jr: And you don't want to add anything?

O'Connor: No, I think that covers it in principle; that's what we're interested in.

H.M.Jr: Principle, yes.

I take it Mr. Diggs is just to keep informed.

Diggs: Yes.

H.M.Jr: If you don't mind, I'll skip our own people.

Mr. Crowley?

Crowley: Well, I think what Mr. Jones has said about the general condition of the banks and the groups is substantially correct. We have analyzed all the banks in the groups. They have cleaned up pretty well; some of them have some problems, like most of the banks have.

However, we are very much interested in the situation in California and the situation on the Coast. I don't think that the groups as a group create any great hazard to deposit insurance under the existing situation, except I think that 90 percent of our worry is the worry of Trans-America and Bank of America and their affiliates. I certainly don't believe that Trans-America should be permitted to extend any further on the Coast and take on any more banks. I don't think that Bank of America or any of the banks that are owned by that group should be permitted to have any more branches. The concentration of 475 branches in California is certainly an unhealthy situation for a corporation of our kind. The thing has got top-heavy. I don't believe it can be properly supervised. There seems to be a tendency for reaching out and extending themselves all the time into other states.

And very definitely I feel that the Federal Deposit Insurance Corporation should insist that greater care be given to the supervision of this group, that no branches be chartered to them any more, and that there be, if possible, some kind of a general recession in the activity of this group, and that they should be made to eliminate loans from affiliates and be made to dispose of their other real estate and generally put their house in better order. In analyzing their examinations, for instance, we find that in one instance, in dormant accounts - they put over some $394,000 worth of dormant accounts. Maybe that is legal and maybe it isn't. But I think the whole tendency on the part of Trans-America has been to build up earning statements that don't go for a healthy situation.

Now, we have in that particular group about $650,000,000 worth of insurance. If something was to happen, it would cause us an untold worry and undoubtedly would mean that we would have to come to the Treasury for large funds or to the R.F.C. for capital. I think that the situation there is too much in the control of one man, that his organization is not sufficiently free to act, that the one man is too aggressive.

And while you're talking about group holding companies, you might just as well get right down to the bottom of this thing and recognize that the great percentage of your trouble is right straight on your Coast. The rest of them are all small, comparatively speaking. I don't think that they should be permitted to accumulate or take on any group or any more banks during whatever interim you're going to discuss, without the consent of either the Federal Reserve or the Federal Deposit or some supervisory agency. It might be possible that you'd want to bring about a consolidation to stop us from a loss, but certainly the program must be to stop this expansion and get them to liquidate their indebtedness and put themselves in a better and more strong position than they are in at the present time. Now, that is my viewpoint on the thing.

H.M.Jr: Mr. Douglas, do you want to say something about what you've got? I mean I haven't told anybody about the reports you have sent me, but ....

Douglas: On the broad aspect of the problem Mr. Jones spoke about, Mr. Secretary, we have very little competence and experience with which to judge - on the broad question as to the application of this problem to the banking business. Speaking just for myself, I endorse a hundred percent the proposition that the bank holding company probably is an undesirable animal.

Jones: Is what?

Douglas: An undesirable animal. That's just for myself.

Now, from the point of view of the official job that we have been doing, we have in our investment trust study run into some situations in the bank holding company field that are rather disconcerting and troublesome. We have in that field, the bank holding companies, ...

H.M.Jr: Can you talk a little louder?

Douglas: .... the operation and management of the holding companies themselves, many of the counterparts of the kind of practices that have gone on in investment trusts: trading with affiliates and such an interlock of connections back and forth between various banks and between banks and holding companies and affiliates as to create a rather unhealthy, messy situation that, from the point of view of the holding company, separate and apart from the bank, seems to be loaded with dynamite. And with the holding company loaded with dynamite, certainly in the main any reaction on the bank structure is likely to be enormous.

That leads to this first observation, that certainly as a minimum the types of practices that have crept into the bank and holding company system ought certainly to be subjected to the same degree of thoroughgoing regulation that a group of reasonable, practical, experienced men would say investment trusts should be subjected to. The industry itself would say that there ought to be some conservative standards put in there so as to cut out these highly promotional activities that bring nothing but headaches to the people that have their money in, and which pervert the function of the investment trust. As a minimum, I don't think there is any doubt but what if the holding company in the banking field is allowed to survive, that the holding company activities should be subject to close scrutiny and regulation, so as to prevent all this monkey business that has been going on.

As to the question of abolition of certain types of holding companies or investment trusts - and I might say that the distinction between them is rather tenuous and they merge one into the other; largely a matter of definition - we haven't as yet at the Commission made up our minds on the matter of abolition. I wouldn't be surprised, in view of the discussions we have had, that wholly and apart from this problem that you are considering, Mr. Secretary, we would come out soon with a recommendation to Congress for abolition of certain types of so-called investment trusts, so-called holding companies, in which this type might well be one. Or if not abolition, drastic curtailment of the scope of the activities of such institutions.

From our experience under the investment trust study and our experience under the Securities and our experience under the Securities Exchange Act, this type of animal has been one of our biggest headaches, rife with all sorts of dangerous practices, and I think that in some situations we may be just sitting on a powder keg.

H.M.Jr: (to McBoyle) You don't mind my saying that I've got that - that that was a nice report on Trans-America you dumped into my lap. I mean I just want these gentlemen to know that I've got it and that you gave it to me, because I can't just sit with it and not do something about it, and - I mean I'm willing to accept it where you people leave off. I mean ....

Douglas: That particular study wasn't a hundred percent; that is to say, we hadn't got way down into the roots of the whole thing; we just touched the surface of that problem.

H.M.Jr: I haven't fully absorbed it, but after I have I'd like to talk to you some more. But it only bears out this - the fact that there is something very much to be worried about.

Douglas: There is. And there are angles of situations like that that come up to us rather officially under the Securities Act, as to the sales of securities; under the Exchange Act, as to the listing of securities.

H.M.Jr: I was going to say the listing.

Douglas: And the reason why it is a problem of concern to us is that any action that we might take publicly, officially, in the courts and otherwise, as respects particular types of transactions, although they had nothing whatsoever to do with the banking problem, might touch off the fuse, if there is a fuse.

But I mean it is that type of thing that makes us very sensitive to this whole dizzy superstructure, with the banks all tied into it as a part of the central nervous system. So we are sensitive to the problem. We have no particular solution to present to you this morning, Mr. Secretary.

H.M.Jr: But you're very much interested.

Douglas: Absolutely.

H.M.Jr: Especially where a thing like Trans-America is listed on the New York Stock Exchange.

Wayne, do you want to say anything?

Taylor: (Nods no)

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

Taylor: I can if you want me to.

H.M.Jr: Well, it's entirely up to you.

Taylor: Well, I haven't anything particular on this point.

H.M.Jr: I mean I didn't want to pass you. I mean Riefler and Viner both asked me not to call on them.

Viner: I withdraw that request.

H.M.Jr: You withdraw it?

Viner: I've got something to say now, after reading this and the S.E.C. report: that I don't think you're dealing now with the important problem. The important problem now isn't how to deal with the - deal in the future with the bank holding company as a part of our financial structure, but what are you going to do about this concrete banking situation, including branch banks. See, this is a report on the Bank of America, and it is obviously a sour situation and it is obviously one involving .....

Jones: What sort of a situation?

Viner: Sour. S-o-u-r.

H.M.Jr: S-o-u-r.

Viner: And it is obviously a case where that fuse you speak of may go off at any moment, if the situation is as bad as this indicates.

Crowley: Well, I don't think ...

H.M.Jr: What have you got there, Jake?

Viner: That's a report on the Bank of America.

H.M.Jr: Where did you get that?

Viner: From Mr. Crowley.

H.M.Jr: Have I got that?

Crowley: I don't think so.

H.M.Jr: I mean that's why I asked. I mean have you given me that?

Crowley: No, sir.

Let me say this, that on the Bank of America, I don't think that the Bank of America is in an insolvent condition, that it couldn't pay its debts to its depositors. But what I am getting at is that I don't think that when you're talking about this holding company structure you can eliminate from this discussion the fact that they have so many interlocking affiliates and real estate companies and different things of that character, that when you're talking just about abolishing holding companies you're not getting at what I think you've got; your problem is a much greater problem than that.

Jones: The real menace.

Crowley: The rest of the holding companies, Mr. Douglas, don't cause us the concern that this large holding company does that has so many branches throughout the West Coast, and so many banks.

H.M.Jr: Well, the reason I ask is, I didn't think I had any report on the Bank of America; the only report I have received from any agency is from Mr. Douglas.

Crowley: This memorandum is a discussion of Trans-America.

H.M.Jr: I don't think I got anything from you on it.

Crowley: No, sir.

H.M.Jr: Now, I'm coming back to this, but before we leave the room I'd like to give Mr. - I mean I want to say something about Bank of America before I get through, but I'd like to give Mr. Eccles a chance on holding companies.

Eccles: Well, I'm just wondering what it is this committee has got to do. It looks to me like the program has been decided upon. I'm just wondering what there is that this committee is - are we supposed to help prepare legislation or to recommend it, or isn't that a matter that's been pretty well decided upon now?

H.M.Jr: No, as far as we're concerned - I mean talking for the Treasury - I mean Treasury proper, which doesn't for this moment include O'Connor - I mean only part of the Treasury, just talking for my own - the office of the Secretary, I haven't - all I've said publicly or anything else - I said, "This is a situation which worries me." Now, the more I go into it, the more worried I get. But I haven't made any recommendations. As a matter of fact, I have asked the President to withhold any action until we had this meeting, so that if there was something - if he sends a message to Congress on holding companies, is there something which the office of the Secretary of the Treasury has overlooked which might have repercussions which would be serious enough to offset the possible benefits? In view of the President's speech at the Jackson Day dinner and the four-inch tail, which certainly this is the best example I know of - but is there something in this situation which is so critical, so serious that we should say to the President, "You can't afford to send a message."

Now, as to the law or whether it should be five years or whether it should be three years, and what the penalties should be, and all that, the General Counsel's office has been making a study of this thing for me so I should be ready. But I personally haven't recommended anything to the President other than saying, "This is a situation which worries me."

That's the way she stands. And I definitely asked him to withhold any action until I could meet with you gentlemen. Now, there's the picture.

Eccles: Well, the Federal Reserve Board was charged in the Banking Act of 1933 with the responsibility of dealing with these holding companies. It is true that their authority was limited to a holding company - a bank holding company - could only deal with those banks in which there was an ownership of 50 percent or more. In case of Trans-America, they have recently reduced their holdings in Bank of America to 43.

The powers that the Board had were merely that of issuing or withholding voting permits.

Now, we have made a pretty extensive study of this thing and gotten together a good deal of information, and since this matter came up a while ago I've gotten into it pretty thoroughly. I've made a study of the whole picture, and from the study and the information that I have, it seems to me, listening today, there is a good deal of misinformation with reference to the general picture.

And I agree with Mr. Viner that when you - you've got to think of what - the real problem here is not the problem that we are apparently trying to get at, merely the problem of bank holding companies. This expansion of the Bank of America would not be gotten at by merely a liquidation of holding companies. /That expansion - the biggest part of the expansion of Trans-America has been due to the establishment of branches. Now, those branches have been - they had to be consented to by the Comptroller of the Currency here. The growth of Trans-America in the establishment of its branches in the state of California, which has been the largest part of its growth, and also the establishment of branches in the state of Oregon through the First National Bank of Oregon - that's where its principal growth has been - has got nothing to do with the holding company as such. That same growth could have gone on free and apart from the holding company. You can withhold bank charters, you can withhold the establishment of branches, both; you can refuse to insure banks. And merely this proposal to liquidate Trans-America would not stop the growth, except the banking authorities would refuse to grant charters or permit the extension of branches./

Now, I wanted to make that point here, because it does seem to me that that is an important factor in this thing: that this growth is a growth that could continue, even though you didn't have a holding company.

Now, the holding company mechanism, getting back to Trans-America, which seems to be - I have here a report of the Bank of America. It is a report of the Comptroller's - it is based on the Comptroller's examination.

H.M.Jr: What's the date, Marriner?

Eccles: Well, it is the last report. Be last year some time. I don't have the - I've got the September report here, and then the most - it's a recent report. Do you remember, Jefty, when the last examination - along in - rather current; it was last fall.

O'Connor: It was some time in August or September, I think.

Eccles: Now, this report certainly would give no one cause for concern, so far as the Bank of California ...

H.M.Jr: Bank of America.

Eccles: I mean Bank of America, which is the big institution. The liquidation of the holding company as proposed in no way lessens the insurance of deposits. You still have 50-some-odd percent of the deposits of that bank insured, whether you - whether Trans-America owns the stock or whether the stockholders of Trans-America wouldn't make any difference. You still have the same liability, don't get away from that at all.

Now, this is the picture on Trans-America. Its sound capital in September of 1933 was $60,012,000, on the total deposit structure at that time of about a little less than seven hundred million. At the present time its capital is $105,000,000, or it has improved its sound capital forty-five million since '33.

Douglas: What company is that, Marriner?

Eccles: That's the Bank of America, which is the principal factor in this picture. It has increased its sound capital structure by $45,000,000 during that period of time. Its real estate loans have been reduced from 314 million to 283.

Jones: From 3....

Eccles: From 314 to 282, while its deposits have increased from 700 million to a billion 200 million. Its deposits have increased 500 million. Its real estate and its real estate loans have decreased. Its holdings in Government bonds and cash and other marketable securities has increased from 317 million to 792 million.

Now, its capital ratio, in spite of the big increase in deposits, has increased from 8.6 to 8.7 percent. I merely - I can give you the same picture on the First National of Oregon and the First National of Reno, the Nevada bank. I merely refer to these banks because that seems to be where the danger of liability is, and I want to show the great improvement within those banks that has taken place from '33 to the present time.

Now, I'm not defending the actions of Trans-America, and if there had been any way that the Board had power to stop it, certainly we would have stopped the growth. We have no power whatever to deal with the problem incumbent in Trans-America. They didn't - nearly a year ago I talked over the telephone to the Chairman of the Federal Reserve Bank of San Francisco, told him to get hold of Mr. Giannini - he was a friend of his, had some influence with him, and felt he could talk to him - to get hold of Mr. Giannini and tell him that we would be compelled to ask for legislation to deal with that situation unless he stopped buying banks in other states. Nothing we could do with his expansion of branches within the state where the banks were owned. That was a question of, - as I say, within the control of the banking authorities.

Now, that particular situation, which is the one apparently that has given rise to all of this difficulty - by requiring that the holding company dispose of its stock in these banks it doesn't seem to me - it doesn't in any way get away from the liability of the F.D.I.C. in those banks at all.

It means that those banks will have stockholders of something over two hundred thousand - the bank in Portland and the bank in Nevada and the bank in California. It means that the stockholders of Trans-America will be the stockholders of those respective banks - two hundred thousand of them. I'm wondering if you've got a better way of getting at that management. Mr. Giannini will control and will operate just as fully and just as completely those banks, if you dissolve Trans-America, as he does today. He will do it through proxies. He doesn't own stock in them; he never did; and he doesn't in Trans-America. He's got two hundred thousand stockholders. He will do it because enough of those stockholders believe in him and they will support him, they will send him his proxies. And he is the one person today that is perfectly willing to have - he's for, in other words, your proposed legislation because he will control his thing so far as he is concerned in just exactly the same manner. Now ...

H.M.Jr: Well, I'm glad to hear he's for it.

Eccles: What is it?

H.M.Jr: I'm glad to hear he's for it.

Eccles: He is. He's for it.

H.M.Jr: Good.

Eccles: Because it doesn't in any way change - isn't in any way going to change his control in the situation.

H.M.Jr: May I ask you a question right at that stage?

Eccles: Yes.

H.M.Jr: Because you're talking so much about Giannini and the Bank of America. If the President should decide to send this message up on bank holding companies, would you be at all worried about the effect it would have on Bank of America?

Eccles: Well, I don't - I don't know. It depends on what propaganda might be started. Of course, I'd be somewhat worried about the effect it has upon the entire situation, the entire bank holding company situation. There is no question that there are a lot of depositors in banks who are ignorant and there would without question be some substantial flurries or losses of deposits, especially as competitors would undertake to get business and spread propaganda, which is usually what happens; and there would be a tendency to certainly curtail credit in all these areas over this period. You'll see a drastic deflationary effect, in my opinion, of action of this sort. It certainly will stop the process of credit until this whole thing - until dissolution is carried out and the thing settled.

H.M.Jr: Do you mind if I interrupt you long enough to ask Crowley that same question?

Crowley: I think it may have some effect on bank stocks, and through some misunderstanding it might cause some withdrawals; but as a whole who owns the banks doesn't affect the position of the banks. I mean by that, whether I own the capital or you own the capital. Unless, as Marriner says, indirectly they might start some fear or something of that character, but I - it wouldn't affect the financial position of the bank. Isn't that true, Marriner?

Eccles: No, it doesn't affect the capital structure. No, of course it doesn't. What I was thinking was the - we'd know the effect of an attempt to sell a lot of bank stocks.

Crowley: I don't think you could do that. I think it would affect your market. But, Marriner, let me ask you a question, please, while you're there. In the first place, let me say that all this discussion of Bank of America, or Trans-America, as far as I'm concerned, comes from my own office. I, as I said before, have been disturbed all the time about the expansion of this group. I agree with Jesse and I agree with Marriner about what the fellows accomplish, generally speaking - protection of the depositors and the improvement they had made in their banks.

But Marriner made one statement that I want to differ with. He says that there's been a misuse of the asset position of these banks in the Bank of America - the branches. Now, our position, Marriner, is this ....

Eccles: I didn't say misuse.

Crowley: Apparently you and I don't agree on the condition of the Bank of America.

Eccles: I don't know. It isn't me. I'm taking the last report of the Comptroller's office. The Federal Reserve uses his reports on the national banks.

Crowley: Marriner, what I'm getting at - this capital ratio is low, isn't it? That we must admit.

Eccles: The capital ratio is 8.7; it was 8.6 in '33.

Crowley: That's very low.

Eccles: Yes, but the cash and securities have increased from 300 million to nearly 800 million.

Crowley: Yes, but nevertheless, the capital ratio is lower than we'd like to see in any bank.

Eccles: Yes, I would say that.

Crowley: The amount of investment he has of his capital in real estate and such items as furniture and fixtures far exceeds his capital, doesn't it?

Eccles: No.

Crowley: Yes.

Eccles: No, he has banking house, 46 million, and he has other real estate, 8 million.

Crowley: Oh no, he's got real estate here of 123 million.

Eccles: Not in the bank.

Crowley: I think you check that and you'll find - you understand that we're throwing back this phony stuff where he takes a note from California Land

and takes out some real estate and just takes back the note from California Land, which is nothing more than potential real estate - just window dressing. When you add all that up, you get a total of 123 million dollars of other real estate; that is, according to the last examination.

Eccles: You're taking loans of affiliates?

Crowley: Yes, sir. Here's what he does, Marriner. ....

Eccles: But those loans of affiliates, which were pretty heavy in '33, have been cut down nearly two-thirds. He's paid a great deal upon those loans, and, checking into the value of the security back of those loans, it has tremendously improved. I'm not saying that a loan situation of that sort is satisfactory, but what I am saying is that the condition is so much better now and has continued to improve every year since '33; that we might have got excited about it in '33 or '34 or '35 ...

Jones: Well, we were excited about it in '33.

Eccles: Yes.

Crowley: Marriner, what I am getting at - I want to put you straight on the Federal Deposit Insurance; that the Federal Deposit Insurance is interested - we think he's been expanding, we think he's got a problem there that only can be cleaned up by damn good supervision and damn good management and the reduction of dividends and things like that, to place his bank in a stronger position. That's what we want to bring about. Do you get my point?

Eccles: Well, you and I don't disagree. If we had the power of the Reserve System to stop expansion, we'd have stopped it long ago, and, as I say, we have done everything that we could within the power that was given us to deal with the problem.

Crowley: I don't think that the group sitting around the room this morning is responsible for the branches that Giannini has. That's a problem that existed before any of us came to Washington.

Eccles: Yes, most of them. I merely wanted to bring up this ....

H.M.Jr: Do you mind if I just - because I have something very definite in mind. If you don't mind, I want to ask O'Connor the same question. I mean I am very serious in this question. Do you feel that if the President should send this message up on bank holding companies you'd be worried about the effect on the depositors or on the Bank of America?

O'Connor: No, I don't think it would affect the Bank of America nearly as much as it would all of the Northwest bank holding companies up in the Northwest territory. Because it is entirely different to have a bank with a number of branches like the Bank of America has - branches of a plain bank; for instance, in Chicago you've got the Continental Bank that has practically the same deposits as you have in the Bank of America. It's the same problem, only in Chicago you've got localized your loans and you've got localized in a certain territory. The Bank of America operates, as Mr. Crowley has said, over 400 branches. It distributes and gets its loans from 400 different units spread over the Coast. While in Chicago you've got a bank of the same size locally and the loans are more localized than they are in the Bank of America.

Eccles: The loans of Continental are national. They loan all over the United States.

O'Connor: Then the second thing is this. In the Northwest - and I think it is true - you've got a group up there of a holding company that owns unit banks; that is quite different than branch banks, because there you've got to dispose of every one of the units. Isn't that correct, Governor?

Eccles: That's right.

O'Connor: And that's where your greatest problem is. It isn't going to affect the Coast anywhere like the Northwest.

H.M.Jr: Now I'd like to ask Mr. Jones, are you a stockholder of Bank of America?

Jones: No, sir.

H.M.Jr: I mean the R.F.C., of course.

Jones: No, sir.

H.M.Jr: You don't own any of that?

Jones: No, never did. They came to us for loans - 67 or 68 million dollars. But no stock.

H.M.Jr: Well, do they owe you money now?

Jones: No.

H.M.Jr: What?

Jones: No.

H.M.Jr: They don't. Do you feel if the President sends this message up that this is something to worry about as to a run on the Bank of America?

Jones: Nothing to worry about as to a run on any bank - no more danger of it, as I can see, than of this building falling down now. I think not the slightest.

I don't agree with you, Jefty; I don't think it's - of course you've got to get rid of these whole banks. Now, Giannini's got 460 branches, I think, something like that.

O'Connor: You don't have to disturb any of those. That's the point I'm making. You don't have to disturb any of his branches in carrying out this program. But in the Northwest you've got to dispose of all ....

Jones: I know, but I think those fellows are resourceful enough and their condition is good enough and the banks are good, and they're all liquid. They're all liquid. So I can't see the slightest danger to any situation in the United States.

Eccles: Oh, I don't think there is a danger of a run. I don't ...

H.M.Jr: Well, go ahead, Marriner. I wanted to clear that up; because some of my people differ and they think that - they've been cautioning me about it because they felt it might cause a run.

Eccles: Well, I think - as I say, I think the principal thing - it would create a generally disturbed agitation for us all during - for some time, and if the question of a liquidation within a period of time is on, there would be during that period of time, so far as all these groups are concerned, likely a deflationary program. Certainly a holding company owning the stock of a bank, knowing that it can't sell that stock, because it couldn't possibly sell stock in banks - we know that the matter of getting bank capital is just out of the question; you can't get capital to go into individual banks - so that the ability of a holding company to sell the stock of these banks is going to be pretty remote. Now, the only way they can liquidate the banks, then, will either be to collect the loans, sell off the investments; where they are in good shape and pretty liquid, that would be possibly the thing to do.

Jones: Oh, they won't do that.

Eccles: Well, I'm not - don't know why they wouldn't. If they can't sell the stock, what else can they do?

Jones: But they can.

Eccles: Where?

Jones: Sell it locally.

Eccles: No, they can't sell it. You take the book value of the stock of these companies and the market value today; the liquidating book value is nearly twice the market value in most of these companies. The last report I saw, Northwest Bank ....

Jones: Wait a minute. What do you ....

Eccles: The liquidating value of the banks, see; if the banks were liquidated and the holding company got the money from the liquidation, see? It was worth $17 a share - Northwest - and today's market is $8. I mean I'm just giving you .....

H.M.Jr: What's the liquidating?

Eccles: $17. It's over twice. In other words, they could collect all their loans in these banks and liquidate the holding company through that process and get far more out of it than they could possibly by selling these stocks.

Now, there's another way to liquidate. The other way to liquidate, of course, is to pay out to the stockholders of the holding company, which in the Northwest case is 17,000 stockholders who would own 70-some-odd banks; in the First Bank Shares Corporation, 20,000 stockholders would own 90-some-odd banks. Now, it seems to me that if that isn't absentee ownership and no management, I don't know what is; that you've got a situation there where one little bank in Dakota or in Montana or Minnesota has got 20,000 stockholders, and it would certainly be the equivalent of a fractional share in the case of a good many of them.

O'Connor: Well, Governor, that's exactly my point as to a distinction between the two systems. That's the sore point and the danger.

Eccles: That's a real one.

I think that the holding company principle in banking is bad, see. I don't think the alternative to the holding company principle is branch banking. But until you can get branch banking so that you can carry out a conversion here, it seems to me that you're only going to jump from the frying pan into the fire; that what you'd better do ....

Jones: Well, the greatest menace you've got is in branch banking now - the one you're talking about.

Eccles: Bank of America. Yes, but he can control Bank of America ....

Crowley: Marriner, wouldn't you reach what we're trying to reach, wouldn't we accomplish what we want to accomplish - what we want to do is to clean up what we consider, we might say, generally speaking, an unhealthy situation. Now, by doing that, don't you - by starting out - first, stop any future expansion; you eliminate any more holding companies or any more expansion. By giving them two or three years to clean up the indebtedness of their affiliates to their banks, you eliminate that. By the elimination of - over a period of years of their collateral loans on the stock of their holding company in their member banks, you eliminate that abuse. And gradually you're putting your banks in a very, very strong position, because you're eliminating all those so-called interlocking loans and discounts.

Now, if over a period of three years you have brought that thing all about in most of the groups, it is only a nominal problem that - then if they have accomplished everything that you want by regulation, if the question comes whether you want to kill them after you've got them all dressed for execution - now, that's the question as I see it. But I don't think there is any disagreement with any of us that we don't want a further development of this thing. Isn't that correct, Marriner?

Eccles: Well, I've been against any further development of the thing ever since the Board got regulations in there, and there has been practically no development except in the one instance.

O'Connor: Well, you see, there's several ways that it develops. Let me give you a concrete illustration. The Bank of America petitioned for a branch in Del Monte, California, and we made a careful investigation of it and decided that there was no room there for another branch, that they had two good banks there - I think both state and national. So we denied them. Then immediately Mr. Giannini ....

Eccles: Not the Bank.

O'Connor: He immediately then petitioned the - made an application to the Federal Deposit for a branch of a state bank in the same place. So I was over there and put the facts before the Board, and the Board agreed with me and we denied that. And then he went in and bought the bank.

Crowley: Well now, he ....

Eccles: This won't stop that. The liquidation of Trans-America won't stop that at all.

Crowley: He's got a non-member state bank that he just bought and he wants some branches, and the program is to set up 25 branches. Now, you just can't let that fellow keep on doing that kind of thing, Marriner.

Eccles: Well, you can refuse to insure them.

Crowley: Sure, and I think we should refuse to give them any more branches regardless of where in hell his locations are, because he's got to .....

Eccles: That's up to you and the Comptroller's office.

H.M.Jr: I just want to ask Mr. Jones something privately before I do it publicly. I don't think I can embarrass him, but I just want a minute.

(Secretary and Jones confer aside; O'Connor leaves for appointment with President)

H.M.Jr: What I want to do at this time, before we go any further, is this. As Secretary of the Treasury, I am going to ask the Chairman of the R.F.C. to take a look at the Bank of America to see whether they have sufficient capital, and I'm going to ask him to do it just as promptly as possible.

Jones: All right, if we can have your (Diggs) report and your (Crowley) report, why, we'll dig right into it and I'll give you an answer in a very few days. We've got some general information, but I don't think we've had the benefit of the Comptroller's report.

Diggs: There's been no occasion for you to ask for it.

Jones: Well, sometimes we ask for them and don't get them because we haven't got stock in them. But we ought to have access to them for many reasons, like this thing here, see? There might be some relative reasons, some collateral reason. We never ask for them unless we think we ought to know.

Diggs: Have you asked for this?

Jones: Not this one. I don't know whether we have. I guess we have too. Never been furnished it. So I'll be very glad if you can give me your report and your report and we'll give you a fairly quick answer on it.

Douglas: Mr. Secretary, may I ask a question?

H.M.Jr: Please.

Douglas: Everything that is said here, of course, is just in the room, isn't it?

H.M.Jr: Triple confidential, because we're talking about a billion dollar bank, and anything that's said in here is triple confidential. I mean I have never yet had any - no one has ever repeated anything that's taken place in the office here yet.

Douglas: Trans-America has been engaging in a program of redistribution of its stock, and we moved in on that situation last summer or spring and stopped it on the ground that we felt that there might be some possible violation of the Securities Act, and we felt that we got the same effective result as we would have obtained had we moved into a court and got an injunction.

Our San Francisco man has just flown in from San Francisco - got here yesterday - and the Trans-America problem is back on our desk, with possible violations of the Securities Act in the sale of securities: roughly, situations where Trans-America is loaning money to its officers, directors, friends, aggregating huge sums, and they are purchasing stock either from Trans-America or elsewhere, usually bailing Trans-America out and then engaging in operations redistributing that stock and thus liquidating that loan. Now, the decision that may be up before us in a few days is the question of what we should do about it. Assuming - I can't say that there has been a violation of law; our staff is working on that - assuming there has been, would it be, from the banking situation, a dangerous move for us to go into court to get an injunction slapped on Trans-America or its officers or its affiliates?

H.M.Jr: Well, I'll answer it this way. Pending what Mr. Jones finds, - I don't think a day or two would make any difference with you, and a day or two might make all the difference in the world with Mr. Jones.

Jones: Can I have the benefit of your study on this thing too?

H.M.Jr: And I think you ought to give Mr. Jones whatever you have.

Douglas: (Nods yes)

H.M.Jr: And what I would say is that just as soon as Mr. Jones is ready, and now that he's heard what you've got to say - the more I go into it, the more serious it looks - but the minute that he's ready, I'll call another meeting like this. And, fortunately, we can call it a bank holding meeting and not have it look as though we were studying Trans-America or Bank of America. But I would say to Mr. Jones - I mean he's a fast worker and Sundays don't mean anything to him when he has to work, so that the minute he's got something and is ready to report back to these agencies, who are charged with the responsibility - and fortunately we've got everybody in the room who's got anything to do with it; there isn't anybody in the Government who isn't in the room now, and the minute you've got something ....

Jones: I'll give you a ring.

H.M.Jr: You'll give me a ring and we'll have another meeting. But I think it's all the more important that we take a look at the Bank of America and see that they have ample capital. There seems to be two opinions as to their statement, and that's what bothers me - the fact that the F.D.I.C. thinks one thing and the Comptroller's office thinks another. And I think the quicker we get to the bottom of it, the better. And, of course, we don't want to start any whispers or anything, but I would say, Mr. Douglas, that one or two days to you wouldn't make an awful lot of difference.

Douglas: No, that's all right. Mr. Giannini has an appointment with me in the morning at half past nine.

Jones: Let me bring you in a report on every one of them.

H.M.Jr: Every one of what?

Jones: These holding things.

Eccles: That's what you're supposed to do today.

Jones: I've got - here it is today. I've got the figures right here.

H.M.Jr: You mean the banks in the holding companies, don't you, Jesse?

Jones: What I mean to do now is from a standpoint that we haven't heretofore considered it - from the standpoint of danger. Now then, what I am proposing to do is go through these ....

H.M.Jr: And see whether the banks which are controlled by the holding companies - whether they all have sufficient capital.

Eccles: What you mean, Jesse, is the condition of the banks.

Jones: And what the problem would be.

Eccles: I think that's a good thing. You'll find, I am sure, that based upon at least information we have, outside of this Trans-America thing the rest of the picture is pretty good.

Jones: Well, I don't think that the Bank of America is in a dangerous position.

Eccles: Not the Bank itself. It's the practices.

Jones: Well, if he goes over in Nova Scotia and buys a bank, and goes over into Guatemala ...

Eccles: What the trouble is, is the trouble that Bill Douglas raises here; it's this inter-bank - I mean this holding company operation. Now, this is what they did; in order to get out from under the control of the Board, they liquidated their stock down to 48 percent in the Bank of America. They had to get a voting permit to vote the stock if it was over 50, so they paid out the stock of Bank of America to their stockholders of Trans-America down to 48, so that they get - with that two percent, they slip out from under the regulation. Now, that stock of Bank of America that was distributed to their two hundred and some odd thousand stockholders, immediately became a drug on the market, and it was becoming terribly depressed, the stock of the Bank, and as a result of that, as I understand it, they stepped in and carried out a market operation to help support this stock which Trans-America had liquidated to their stockholders.

Just one other thing I want to say, then I'm through on this.

H.M.Jr: May I just before - I just want to say this, so that there is no question about any of these other agencies; I'd like to amend my request of you (Jones) that you look over the banks - all the holding companies, and as soon as you have satisfied yourself, that you report back to this group.

Jones: I understand that.

Eccles: I was going to say that when you talk about the liquidation of holding companies, if it's going to be done we ought to make a complete job of it, and that to my mind this list of what we call holding companies here doesn't commence to cover all of the banks that are owned by corporations; so that what you've got to do is to define a bank holding company.

Jones: You're getting into details now. Let's reach our problem and then get into the details.

Eccles: But this is a thing - it seems to me before you can approach the problem you've got to think of how far it goes, and any company owning the stock of more than one bank - isn't that where you've got to go?

H.M.Jr: Well - but you're trying to write a bill now.

Jones: We're not ready to write a bill.

Eccles: But when you start to deal with the holding company problem, you've got to ....

Jones: We've all thought about that. Most of us have thought about that.

Eccles: Well, how many companies own bank stock? I mean that's what ....

H.M.Jr: I take it Mr. Jones has a list of so-called bank holding companies. If he hasn't, we can get him one.

Eccles: No, there isn't any list of that kind.

H.M.Jr: I got a list.

Jones: We're not ready to ....

Eccles: Listen, any corporation that's got stock in more than one bank is - you've got to say is a bank holding company.

Jones: All right, we'll put him on. That's all right. That's easy. When you write your bill we'll do that. We'll let you write it.

Eccles: I don't want to write it.

(Gaston comes in)

H.M.Jr: The press know we're here. That's why I asked Mr. Gaston to step in. As far as I'm concerned, I'm not going to say anything. As far as Gaston - if it's agreeable to you, simply say that we're making progress.

Jones: Yes.

Eccles: That's all you can say.

H.M.Jr: What?

Eccles: That's all you can say.

H.M.Jr: That we're making progress, huh? Well, Herbert, as far as I'm concerned, that's all.

Crowley: Might I straighten up something here, Jesse, before we go any further on this thing. I don't say that Bank of America is insolvent, you understand.

Jones: I know you don't.

Crowley: And all I say is that Bank of America has too low a capital ratio, has too large a percentage of its capital tied up in brick and water, furniture and fixtures, and other real estate.

Jones: And in frozen stuff.

Crowley: And they're expanded too greatly.

Jones: I'd like to make this observation before we close: that if we're ever going to do anything on bank holding companies, let's do it while I can come over and get a request from you (Secretary) for preferred stock; that now is the time to do it instead of putting it off.

H.M.Jr: I agree with you. Thank you very much.

Jan. 28, 1938

To the Sec. of the Treasury

The holding company principle as applied to banks is little, if any, different from that applied to utilities or other institutions which operate under franchise.

I have always regarded this principle as generally not in the public interest. There are, of course, exceptions, but by and large the abuses far outweigh the advantages to the few in the exceptional cases.

Credit and banking facilities are vital to the welfare of any community and should not be under the direction and control of authority far removed from it. This applies to branch banking where the branches extend beyond the natural trade territory of the principal bank, as well as to banks owned and operated by holding companies.

The holding company is further objectionable because it has no direct responsibility to the depositors or other creditors of the individual bank.

Notwithstanding these principles, relatively there was not an excess number of failures in the recent banking crisis of banks owned by holding companies, but rather to the contrary.

Jesse H. Jones

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
WASHINGTON

ADDRESS REPLY TO
"COMPTROLLER OF THE CURRENCY"

January 28th, 1938.

PERSONAL.

My dear Mr. Secretary,

In view of the fact that I am leaving Monday evening and will not have a chance to participate in further conferences, I thought I should give you a few reflections I have had as a result of the conference this morning.

1st. I was dumfounded at the statement of Chairman Leo Crowley with reference to the Bank of America. He has never indicated to me directly or indirectly any dissatisfaction or criticism with reference to the Bank of America. The first information I had that he was critical of the situation was in his statements this morning. Mr. Crowley has never discussed or presented the matter to the Board of Directors of the Federal Deposit Insurance Corporation.

2nd. Under the law it is the duty of the Federal Deposit Insurance Corporation to serve notice on any insured bank who engages in unsound or unsafe practices. If Mr. Crowley's statements were correct he should have presented the facts to the F.D.I.C.Board and a notice should have been sent to the Bank of America.

3rd. I was even more surprised when Dr. Viner stated he had a report given to him by Chairman Leo Crowley on this matter. As you perhaps know, these reports are confidential information and it was a great surprise to know that Mr. Crowley would divulge information of this kind to any individual without the authority of the Board of Directors. We regard this as a dangerous precedent and violation of the law.

4th. Any person designated by you has full access to all of the records of this office at any time and we are rather surprised that Dr. Viner should not have secured such an authorization from you to get such information from this office if he cared to make a study of any bank.

5th. Chairman Crowley's serious error was immediately corrected by Chairman Eccles. This matter cannot be handled without the most careful consideration, and of course Dr. Viner could easily be led into error by Crowley, because Dr. Viner does not hold himself out as a bank expert. Nor does he claim to be an expert examiner. He has fine judgment when the facts are presented to him.

6th. I have always known of Chairman Crowley's hostility to the National Banking system, as evidenced by the effort on the part of his representatives, whenever mergers of banks in communities are involved, to establish a state bank rather than a national bank.

7th. It occurs to me that whenever Government money goes into mergers, which investments must be approved by the Secretary of the Treasury, that we should make an effort to have the bank nationalized and bring it under the control of the Treasury.

8th. Dissolution of holding companies will have a more pronounced effect on the holding companies in the northwest - Minnesota, North Dakota, South Dakota, Montana, and other northwestern states - for the reason that the banks there are unit banks, and if the stock of these banks is distributed you will have a bank in some instances with $20,000 of capital stock distributed among twenty to thirty thousand shareholders. This inconvenience will not be suffered by any bank which has branches.

9th. I pointed out this morning an illustration of denial by this office of an application of the Bank of America to establish a branch at El Monte, California. Subsequently the Bank of America made application for one of its state banks at the same point, to which I objected before the Federal Deposit Insurance Corporation, and the application was denied. Transamerica then purchased one of the going banks in that city.

10th. For several months there has been on my desk applications for additional branches in Nevada and for several weeks in Oregon, of banks controlled by Transamerica, and these branches have been declined because the ratio was not according to the standard fixed by this office. Otherwise, these banks are in excellent condition.

11th. This office has made some criticism of the Bank of America, since it is the duty of the office to call the attention of the management to unfavorable loans in any bank. We have criticized the Bank of America for an excess of real estate owned, and also we consider loans to affiliates based on real estate subject to criticism. These criticisms were contained in the report which Mr. Crowley secured from this office.

12th. Chairman Eccles pointed out rather briefly this morning the astonishing recovery made by the Bank of America from 1933 to 1937. Heretofore we have furnished you with a memorandum on this subject. Two or three facts stand out rather pointedly -

(a) The sound capital structure has been increased $42,395,000.

(b) Cash and Governments are now at $512,000,000.

(c) This bank never sold any preferred stock to the Government. In 1932 it owed the Reconstruction Finance Corporation, the Federal Reserve and correspondents $138,182,000. This indebtedness had been completely liquidated by June, 1933.

(d) Deposits have increased from $713,346,000 to $1,349,-700,000.

(e) This bank has more Federal Housing loans than all of the other banks in California combined, something like $55,000,000.

13th. Mr. Crowley's erroneous criticism of the bank in no way reached the point of the discussion at the conference. While the discussion was entirely outside of the purpose of the conference, yet I feel these observations are pertinent.

14th. Affiliate and holding company loans should be watched with care and a policy should be adopted looking toward the entire elimination of all such loans.

15th. Chairman Douglas' statement that there was some evidence of manipulation of stock in Transamerica is a matter to be condemned if it exists, but that is a matter entirely under the jurisdiction of the Securities and Exchange Commission.

16th. Chairman Eccles stated that he had discussed with the Chairman of the Federal Reserve Bank in San Francisco the Transamerica policy of extension and instructed him to advise Mr. Giannini that if this extension continued in the northwest, he would be compelled to ask for legislation. This is the first information this office has had of this position on the part of the Federal Reserve Board.

17th. We have an appointment with Mr. Giannini for tomorrow to discuss some criticisms we have of the bank. Chairman Douglas stated that he also had an appointment with Mr. Giannini for 9.30 tomorrow morning. It would seem highly important that Mr. Crowley discuss whatever he has in mind with Mr. Giannini tomorrow also.

18th. I have stated on numerous occasions that I am absolutely opposed to holding companies of bank stocks which tends to go to the extent of controlling the banking system of the nation. We cannot permit the banking structure of the nation to ever get into the control of one or two groups of men through holding companies.

I believe the conference was of definite value in bringing out the points enumerated in this letter.

Cordially yours,

J F T O'Connor

J. F. T. O'CONNOR
Comptroller

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Treasury Building, Washington, D.C.

TREASURY DEPARTMENT
OFFICE OF COMPTROLLER OF THE CURRENCY
WASHINGTON, D. C.

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Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury.

Deld to HO
12:02
Jan/29/38

January 29, 1938.
11:00 a.m.

MEMORANDUM

Re: F.D.I.C. report on Trans-America

Mr. O'Connor called on me and said that Mr. Giannini was in town and didn't I think that Mr. Crowley should get in touch with Mr. Giannini and inform him of the report which he has about his bank. I said that I wouldn't handle it that way because, in the first place, as Secretary of the Treasury I had yesterday learned for the first time that Mr. Crowley did have such a report on the Bank of America, and that I did what I believed to be my legal and moral responsibility in asking Mr. Jones immediately to get all the information available and make an examination of all banks in bank holding companies; that Mr. Crowley in no way was responsible to me; however, that Mr. O'Connor was a member of Mr. Crowley's board, and I suggested to Mr. O'Connor that he ask Mr. Crowley to call a meeting of the Board of F.D.I.C. and at that time Mr. O'Connor should ask that whatever information Mr. Crowley had about the Bank of America should be brought formally before the Board, and that then the Board should take whatever action is deemed necessary.

Mr. O'Connor agreed with me that this was absolutely the right way to handle the situation.

H.M.Jr.

TREASURY DEPARTMENT
COMPTROLLER OF THE CURRENCY
WASHINGTON

ADDRESS REPLY TO "COMPTROLLER OF THE CURRENCY"

January 29, 1938

Dear Henry:

Mr. A. P. Giannini has just left my office. Prior to his coming in to see me, Mr. Folger discussed with me his conversation with Mr. Giannini on our criticisms of real estate loans and loans to affiliates, as well as the dividend policy and other criticisms in our report. It is not necessary to give a long summary of the conversation, as Mr. Folger will be available any time.

However, I told Mr. A. P. Giannini that this country would never stand for the extension of bank holding companies which would ultimately result in the banking system of the nation being under the control of one or two groups of men with headquarters in Wall Street. I asked Mr. Giannini what would happen if the organization which he built up, at his death, passed into the hands of a selfish group in Wall Street. I told him that this was my greatest fear in reference to the holding company. He said he had already made provisions for such an eventuality; that he had distributed 58 per cent of the bank stock of his holding company and that he expected to have the balance of it distributed within three or five years down to 10 per cent.

He said he favored such a bill.

Cordially yours,

J. F. T. O'CONNOR
Comptroller

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

TREASURY DEPARTMENT

COMPTROLLER OF THE CURRENCY

WASHINGTON

ADDRESS REPLY TO "COMPTROLLER OF THE CURRENCY"

January 29, 1938.

My dear Mr. Secretary:

Immediately after leaving your office, I called Mr. Leo T. Crowley, Chairman of the Federal Deposit Insurance Corporation and stated that I thought we should have a Board meeting, and that he should lay before the Board, his conclusions with reference to the Bank of America.

Mr. Crowley stated that there was nothing that the Board could do at this time, and there was no action he could suggest to the Board, in connection with the Bank: First, He did not believe a meeting was necessary for this purpose; Secondly, Mr. Crowley stated that the suggestions he had made yesterday, were criticisms which had been found in the Comptroller's Examiner's reports. Such criticisms have, heretofore, been taken up with the Bank.

Mr. Crowley stated he had no information concerning the condition of the bank, except from the reports of the Comptroller of the Currency. He did not regard the bank as unsafe or unsound; but his opposition to the policy of further expansion.

I told Mr. Crowley that I was very much opposed to Holding Companies extending their activities, which in the end, would be controlled by one or two groups of the entire banking system of the Nation, and the ultimate control of a few men in Wall Street.

He agreed and said we should get together on this proposition and put a united front to prevent such an occurance. Nothing could be more disasterous, in my opinion, I told Mr. Crowley, than to have the credit of the Nation in the hands of a few men.

Mr. Crowley also stated that the Bank of America had made application for certain branches of State Banks which matter, had been received today. I suggested in view of that, Mr. Giannini was in the city and probably would want to discuss it with him and to get the general policies of the Corporation. Such an appointment has been made for 2:30 o'clock this afternoon.

I have not seen Mr. Giannini up to the writing of this letter, but he has been in conference with Mr. Folger discussing with Mr. Folger, the criticisms which we have made of his bank, and which are contained in our reports.

Sincerely yours,

J. F. T. O'CONNOR
Comptroller

Honorable Henry Morgenthau
Secretary of the Treasury
Washington, D. C.

Diary

January 31, 1938.

MEMORANDUM FOR THE FILES

Messrs. Throop, Lane and Judy of the SEC called at the Secretary's house at five o'clock January 29 to advise him of the SEC's interest in the Transamerica situation. Mr. Troop is General Counsel, Mr. Lane Assistant General Counsel, and Mr. Judy, Examiner in San Francisco of the SEC.

The immediate question before the Commission is whether they will permit the marketing over the counter of stock owned by one Paganucci in Transamerica Corporation to the amount of about 19,000 out of a block of 30,000 shares. This question, in turn, opens for consideration a further problem, and that is whether the Commission has now been warned of such a state of affairs in connection with Transamerica that a complete examination of its dealings with insiders is indicated. Should such an examination be instituted, it would sooner or later bring the entire situation out into the open. The background for the foregoing is as follows:

1. About six months ago a wholly-owned subsidiary of Transamerica, called Associated American Distributors, entered into an arrangement with a group of affiliated dealers for the sale of Transamerica stock, the company agreeing to pay, in addition to regular brokerage, a special consideration for sixty-day placement; that is, sales which resulted in continued holding by the purchaser for at least sixty days. Last April or May these activities were stopped by the Commission on the ground that this method of distribution was tantamount to a sale by Transamerica itself and, that being so, the issue would have to be registered with the Commission before further transactions of that kind could take place.

2. About a month later Transamerica stock broke sharply and the company announced that it would buy for its own treasury, at prices considered by it to be advantageous, such blocks of stock as it might desire to acquire. At about the same time it announced the distribution of Bank of America stock to its stockholders and a recapitalization and rearrangement of Transamerica. These announcements apparently led to much agitation and inquiry on the part of investors and the public generally, and the Commission made an investigation at that time but found no illegality.

3. In September an over-the-counter broker, H. R. Baker, inquired at the Commission whether it would be proper for him to sell for the account of one A. O. Stewart 29,000 shares of new Transamerica stock on a sixty-day placement arrangement. Stewart, one of the governors of the Federal Reserve Bank of San Francisco, is heavily interested in joint stock land banks and is indebted to the Bank of

America for several million dollars used by him to buy stock control of several joint stock land banks. As a result of Baker's inquiry, representatives of the Commission interviewed Stewart. He advised them that he had owned Transamerica stock for a long period of time, was not being pressed for his loans, had ample assets apart from the stock to liquidate the loans, but did not wish to sell his Transamerica stock on the regular stock exchange in order to avoid depressing quotations for the stock.

4. The Commission gave its approval and the sale proceeded, but it warned Baker that if any other such deals were suggested to him he must advise the Commission before he would be free to proceed, the Stewart transaction being considered by the Commission not to be in the nature of a precedent.

About a week ago, Baker advised the Commission that one Paganucci had approached him to sell the 19,000 shares to which reference has already been made. As a result the Commission made an investigation and found the following facts:

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.

Some time thereafter, nevertheless, Transamerica General Holding Company advanced more funds to Paganucci in a sufficient amount to finance entirely the purchase by him of 10,000 shares of Transamerica stock. When some time later Paganucci applied for a $10,000 loan for his commission business, the Bank of America, through one Gock, one of its officers, denied the loan. But in spite of this fact the Transamerica Service Company, another Transamerica affiliate, placed orders with brokerage firms for the purchase by Paganucci of 14,000 additional shares of Transamerica stock which the Service Company financed entirely.

His total loans with Transamerica and its various affiliates, including the bank, amount to about $700,000, with collateral of about $500,000, so that, all together, his account is under water, although the loan with the bank itself in the amount of about $165,000 appears to be adequately secured since it has all of the collateral behind it.

It was pointed out, however, that the bank itself is heavily involved with Transamerica stock and, therefore, losses taken by Transamerica will indirectly react against the bank. At the present market about $11,000,000 of Transamerica stock is pledged with the Bank of America as collateral.

6. The Commission believes that Transamerica itself is concerned with the proposed sale of Paganucci's stock. Not only Paganucci and his attorney, but Gianini himself, Neblett and another lawyer named Scampini have appeared at the SEC to urge upon them the granting of the requested permission.

Under all the circumstances it seemed probable to the Commission's representatives that the Commission would deny permission for the sale of Paganucci's stock in the manner proposed. Further than that, however, the matters brought to their attention in connection with the Paganucci stock may indicate that there are numerous other instances of which the Commission has not been advised where sales of stock, ostensibly for insiders or stockholders not connected with the management, have actually been for the account or at the instigation of the company itself. This might necessitate a complete investigation of the entire Transamerica situation with a view to determining whether the Securities Exchange Act or the Securities Act, or both, have been violated, and whether other violations in contemplation should be prevented.

It appears that, if such an investigation is undertaken and if the Transamerica officials cooperate, a month or more might well elapse before any suspicion would be aroused in the minds of the public. If, on the other hand, the Commission finds it necessary to resort to court action or to the examination of the records of third persons, it is believed that rumors would leak out almost immediately. The possible effect of such rumors might be two-fold: first, a market break of Transamerica stock with a corresponding loss in collateral value to Bank of America; and second, loss of confidence in the bank itself, possibly accompanied by a run.

The conference was concluded by a request from the Secretary, acceded to by the Commission's representatives, that any final action determined upon by the Commission would be communicated to the Treasury. It was made clear by the Secretary that he was not requesting or suggesting any influence upon the Commission's decision and that he merely desired to be kept advised.

CVO

CVO:BJ

January 31, 1938.

Dear Jefty:

I received your letter of January 29th an hour or so after our oral discussion of the same subject matter. I assume that in view of this circumstance no further reply is necessary.

I have now also received your two letters of January 29th. Please accept my thanks for the information contained in them.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Return to Room 285

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Jan. 31, 1938

TO Secretary Morgenthau

FROM 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.

CWO

cc to Mr. Oliphant

COPY

Feb. 1, 1938

Secretary Morgenthau

Mr. Opper

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 Paganucci 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.

Neblitt 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 "Paganuccis" 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. O.

C O P Y

February 1, 1938

For the Secretary:

I talked to Leo Crowley this morning and told him that I understood he had a conference on Saturday afternoon with Mr. Giannini. He agreed that he had and went on to tell me that Mr. Giannini had asked for an approval of his application for some branches of state banks. Mr. Crowley told me that he had definitely informed Mr. Giannini that so far as he is concerned, the application would never be granted.

Mr. Crowley said that in the face of his positive statements, Mr. Giannini persistently inquired "When are we going to get our branches?" He added that Mr. Giannini had told him that he was not disturbed about the bank holding company bill because he had planned to distribute down anyway, and that as a matter of fact, he favors the bill.

Upm