Book 356

Bank of America

Consolidated Report
November 21, 1938--February 28, 1939

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO, CALIFORNIA

CONSOLIDATED REPORT

Begun

November 21, 1938

Completed

February 28, 1939

(Received Office of the Comptroller March 7, 1939)

REPORT

No. of Bank 13044

OTHER LIABILITIES - Continued

Balance carried forward -		$ 2 614 590 51
ADMINISTRATION DEPARTMENT		
Allowance for extinguishing bond premium		1 980 001 91
U. S. Securities	528 688 59	
Municipal and other exempt securities	1 348 904 85	
Non-exempt securities	102 408 47	

This account has previously been deducted from the total book value of bonds carried, but is now shown as an other liability in accordance with instructions relative to the new regulations for appraising investment securities.

TOTAL OF OTHER LIABILITIES . . . . $ 4 594 592 42

EXAMINER'S COMMENTS ON MATTERS REQUIRING ATTENTION

(Include comments on items in previous report of examination which have not been satisfactorily adjusted.)

HISTORICAL REVIEW OF ASSETS IN GENERAL

Attention is directed to Page-4, Inserts 1, 2, and 3, which reflect the character and distribution of assets and liabilities upon a comparative basis over the past five years, the period used in connection with the comparative figures set forth in the following five (5) paragraphs.

It will be noted that total real estate loans have increased $36,265,000. This increase has resulted after normal reduction of loans through payments and the abnormal reduction of loans through foreclosure. This latter process has accounted for the acquisition of $46,368,345.41 in Other Real Estate Owned since April, 1934. A major portion of the foreclosures arose out of illegal #3 and non-conforming #4 real estate loans previously carried by the bank. That portion of illegal #3 and non-conforming #4 real estate loans eliminated by foreclosures, together with the revision of Section 24 of the Federal Reserve Act by amendment in 1935, reflects in the $51,556,000.00 reduction of the total illegal #3 and non-conforming #4 real estate loans and accounts to a great degree for what would otherwise appear as full correction in this criticizable group of assets. With the exception of the year 1934, loans secured by real estate taken for Debts Previously Contracted #1 have been steadily increasing. The net amount of such increase is approximately $8,200,000. The large increase in conforming loans, which accounts for the net increase in total real estate loans as shown above, has been primarily due to the bank's large volume of F.H.A. Title II loans, aggregating $85,404,652.61 as of this examination.

Loans to Transamerica Corporation and its subsidiaries show a net decrease of $7,861,000.00 over the period covered but remain $6,356,000.00 in excess of their level on 10-14-36. Attention is directed to the fact, however, that included in this group of loans at the beginning of the period were the Inter-America Corporation Contracts in the amount of $32,941,141.21. These contracts have since been eliminated, rather than liquidated, almost entirely by the substitution of obligations of other obligors; the reacquisition of illegal assets; the diversion of bank's earnings; the capitalization of unrealized bond appreciation and the writing up of other assets, previously written down, to the unrealized full market value of the collateral securing them. By the elimination of this indebtedness through these processes, the management released the listed and unlisted collateral formerly pledged to secure the same without the approval of the Board of Directors which enabled the corporation and its subsidiaries to effect new borrowings from this and other banks. The new loans obtained from this bank has resulted in maintaining this highly undesirable concentration at a consistently high level. The history and details of these contracts and their elimination are contained under Large Line to Transamerica Corporation and its subsidiaries on Page-8, and inserts thereto.

Loans dependent upon the stock of Transamerica Corporation have been decreased $9,644,000.00. This was occasioned, rather than accomplished, by the change of method in calculating the proportionate loan dependency upon the collateral of this stock, which change accounted for approximately $6,000,000.00 of the total decrease, and the action of Transamerica Corporation in changing its capital stock from a No Par to a $2.00 Par Value for each share and then exchanging one share of the new stock for every two shares of the old stock outstanding. At that time Transamerica Corporation distributed approximately 58% of its holding in stock of Bank of America N.T. & S.A. as an asset dividend, thereby reducing the asset value of its new stock by approximately $60,000,000.00 in book value of assets. At the present time there is $4,711,306.26 of loans dependent upon 612,125 shares of Transamerica Corporation, and $3,171,200.00 of loans dependent upon 66,092 shares of Bank of America N.T. & S.A., representing largely the result of the asset dividend referred to above, making a combined comparative total of $7,882,506.26 in loans remaining which were predicated upon original Transamerica Corporation stock. It is evident, therefore, that for comparative purposes the above decrease of $9,644,000.00 can not be considered as actual improvement in this group of loans, for it is estimated that cash reduction since 1934 has approximated slightly in excess of $2,000,000.00.

The investment in banking premises and furniture and fixtures has increased $7,934,000.00 and the concentration of Other Real Estate has increased $8,562,000, making an aggregate net increase in fixed and frozen assets of $16,496,000.00. In addition, a total of $12,315,049.29 of real estate loans are presently classified by field examiners as actual and probable foreclosures, a large portion of which will unquestionably become Other Real Estate Owned.

CONSOLIDATED REPORT

No. of Bank 13044

CRITICISMS

HISTORICAL RESUME OF ASSETS IN GENERAL — cont'd.

During the period covered deposits have increased from $767,581,000.00 to $1,379,857,000.00, or a total increase of $612,276,000.00. During the same period the bank's book capital structure has only increased from $103,766,000.00 to $112,591,000.00 or a total increase of $8,825,000.00, which is equivalent to 1.4% of the increase in deposits. The sound capital structure in relation to total deposit liability has decreased from a ratio of $1.00 to $11.36 to a ratio of $1.00 to $13.49.

Attention is also directed to Page-3, Insert 1, which is the comparative schedule of classified loans as shown by reports of all examinations made of the bank since its conversion into the National System in 1927. Particular attention is directed to the period between the examinations of 12-31-29 and 4-10-33, which includes the beginning of the past depression and follows it through to its depth. It was during this period that most banks were confronted with heavy withdrawals of deposits, and liquidation of assets became necessary to meet the emergency. The excess withdrawals over liquidation were met largely by heavy borrowings from the Reconstruction Finance Corporation through the medium of the then affiliated Pacific Coast Mortgage Company (formerly Bankitaly Mortgage Company) and borrowings from other banks. Because of the character of the bank's assets; these heavy borrowings; and continued withdrawal of deposits, the very existence of the bank was seriously threatened in 1933. In this period it will be noted that the percentage of classified loans to the total loans increased from 10.6% to 49.6%, a rapid increase of 39%. Losses in the amount of $53,783,450.00 were estimated in the reports of examination during this three year period, all of which, however, were not charged off by the bank's management, resulting in considerable duplication of classified losses in these successive reports of examination. Between the years 1929 and 1933 total losses of $29,422,486.42 were actually charged off as shown by the schedule of losses on Page-3, Insert 2, and an additional $35,214,000.00 of losses and non-bankable assets were removed through the Inter-America Corporation Contracts during the years 1931 and 1932, or a combined elimination of $64,636,486.42.

This rapid deterioration of 39% indicates the sensitivity of loans to adverse conditions. This was reflected chiefly in real estate mortgage loans and the former unwarranted concentration of loans secured by stock of Transamerica Corporation, in which latter group the heavy decline in the market value of the collateral materially weakened these assets. The bank's large acquisition of Other Real Estate Owned through foreclosure on its real estate loans, both at that time and since, clearly illustrates the inherent weaknesses of a large portion of these assets. Reduction of loans secured by stock of Transamerica Corporation was largely obtained through the sale of the loss portions under the Inter-America Corporation Contracts and some actual charge off by the bank. However, this correction has since been largely nullified by the constant writing up of these loans under instructions issued by the management to the subsequent higher unrealized market value of the collateral, leaving them again wholly unprotected by any semblance of a margin. This has resulted in repeated re-estimation of losses as the market value of the collateral declined and inasmuch as the market value of Transamerica Corporation stock has declined approximately 35% since the date of this examination, substantial additional losses will again be shown on this concentration in the next report of examination. The so-called recoveries effected by these repeated write-ups were used to reduce the fully secured Inter-America Corporation Contracts, details of which transactions are fully set forth under the Large Line to Transamerica Corporation and its subsidiaries on Page-8 and the twenty-eight (28) inserts thereto.

As stated in the preceding paragraph, losses and other unbankable assets aggregating $64,636,486.42 were either charged off or sold under the Inter-America Corporation Contracts between the examinations of 12-31-29 and 4-10-33. Despite this elimination the percentage of criticised loans to total loans reached a peak of 49.6%. Since that date, with the aid of the gradual return to more normal conditions, this percentage has been reduced from 49.6% based on total loans of $645,795,448.00 to the present percentage of 16.54% based on total loans of $647,997,317.00. During this latter period, additional loans totaling $39,682,235.00 have been actually charged off against earnings, as reflected by the schedule of losses taken, shown on Page-3, Insert 2, which accounts for a substantial portion of the correction obtained. The removal of these losses was largely made possible by the $39,301,432.00 of bond profits taken since 1934. Included in these charge offs, however, are certain losses

cont'd.

CRITICISMS

HISTORICAL RESUME OF ASSETS IN GENERAL - contd.

formerly included under the Inter-America Corporation Contracts which the bank had subsequently re-acquired and concurrently charged off at the time of the various bond write-ups, the proceeds of which were used toward the reduction of that corporation's liability under those contracts.

During the year 1933 and subsequent years up to and including this report losses charged off and estimated aggregate $61,107,177.61, which clearly emphasizes the residual nature of the concentrations in thoroughly frozen assets since the depression years and accentuates the need of conserving the bank's earnings until a satisfactory asset condition is reached and the capital structure is sufficiently fortified to enable it to better withstand future periods of adverse conditions. The remaining percentage of criticised loans is many times greater than [illegible] of comparable size occasioned primarily by their policies of utilizing [illegible] tion of their earnings to remove unbankable assets rather than [illegible] the payment of excessive dividends to shareholders.

COMMERCIAL LOANS

Of the total commercial loans, $59,052,099.47 is classified as shown in the recapitulation on Page-7, Insert 10, of this report. Of this amount a total of $41,625,569.91 is represented by loans to Transamerica Corporation and its subsidiaries, carried in the Administration Department; $5,610,849.02 is represented by the Impounded German Credits carried at the International Banking Department, both of San Francisco; and an additional $3,500,000.00 is comprised of the A.O. Stewart obligations, carried chiefly in the San Francisco Main Office. Details of these three concentrations are shown under Large Lines on Page-8, Inserts 1 to 32 inclusive thereto, to which reference is made. The balance of classified commercial loans, totalling $8,315,680.94, is carried throughout the various other branches.

The classified portions of the first three groups of loans above mentioned total $51,736,418.93 or over 87% of the classified total. Of these three groups, the concentration to Transamerica Corporation and its subsidiaries comprises 70% of the classified total. In addition to the commercial loans classified as II, III and IV, there is a total of $39,906,013.13 of loans listed under "Other Loans Especially Mentioned", of which amount $17,460,000.00 is represented by loans included under the Large Line to Transamerica Corporation and its subsidiaries. Consequently, the classified commercial loan problem is not a scattered one, but rather closely concentrated and centered chiefly in the concentration to Transamerica Corporation and its subsidiaries.

With the complete correction or elimination of the adversely classified portions of the three Large Lines, the remaining total in this department would then be reduced to more normal proportions.

REAL ESTATE LOANS

Since 1936, real estate loans have been increasing steadily, occasioned chiefly by loans insured under Title II of the National Housing Act, which now aggregate $85,404,652.81 as shown by the comparative schedule on Page-9, Insert 6. Deducting this amount from the total real estate loans of $362,404,758.97, leaves a balance of $277,000,106.16 of all other types of real estate loans, of which amount $51,702,463.07 or approximately 20% is subject to adverse classification as shown by the recapitulation of classified loans on Page-7, Insert 10. Of the criticised real estate loans $12,315,049.29 represent distress items, of which total 385 individual loans totalling $7,385,945.00 are under actual foreclosure, as revealed by the foreclosure records of the Bank and shown by the comparative schedule on Page-9, Insert 7, the balance representing probable foreclosures in the opinion of the field Examiners. In some instances notice of default is filed to prevent outlaw of loans which are subsequently renewed. In view of past performance, however, it is estimated that the major portion of the items under foreclosure will ultimately result in Other Real Estate Owned.

CRITICISMS

REAL ESTATE LOANS - cont'd.

As indicated on Page-9, Insert 6, there still remains a large aggregate of DPC #1, illegal #3 and non-conforming #4 real estate loans. The aggregate amount of loans falling in these three classifications is $112,891,951.64, or over 40% of the total real estate loans exclusive of the Title II loans. The illegal #3 and non-conforming #4 real estate loans have been acquired through various means, however, it is believed that the major portion of the non-conforming loans were acquired from the predecessor State Bank at the time of conversion in 1927, while the major portion of the illegal loans were acquired from unit banks purchased and established as branches. From the schedule above referred to it will be noted that between the examination of 3-31-32, to date, conforming #2 loans have decreased from $195,076,246.32 to $162,298,286.62, or a net decrease of $32,777,959.70. At the time of the examination on 3-31-32, the DPC #1 and illegal #3 loans aggregated $109,761,978.44. At the present time the DPC #1 illegal #3 and non-conforming #4 loans aggregate $112,891,951.64, or an increase of $3,129,973.20, which clearly indicates that the bank has made no net progress toward the elimination of loans that do not conform to Section 24 of the Federal Reserve Act and that the contrary is true to the extent of $5,129,973.20. The illegal #3 and non-conforming #4 real estate loans as of this date aggregate $72,687,277.49, revealing a reduction in this type of loan of $36,322,193.86 since the examination of 3-31-32, while during the same period the DPC #1 loans have increased $39,452,167.08, which clearly indicates that the major portion of the reduction obtained in the illegal #3 and non-conforming #4 real estate loans was obtained by foreclosure and subsequent sale of the resultant real estate to the Capital Company and California Lands, Inc., whose contracts are included in the total of DPC #1 loans.

In view of the fact that the Bank has acquired $98,654,636.51 of real estate through the foreclosure of real estate loans since its conversion into the National System in 1927, as shown by Page-14, Insert 80, which total does not include properties acquired under foreclosure and resold prior to debiting the cost price to the other real estate account, it is evident that much work remains to be done in order to eliminate this large aggregate of undesirable assets and bring them into conformity with legal requirements. The past practice of acquiring illegal #3 real estate loans by the purchase of unit banks, or from Transamerica Corporation and its subsidiaries in order to reduce their indebtedness to the bank must be discontinued.

STATUTORY BAD DEBTS

This class of paper totals $8,805,428.44, as shown on Page-7, which is entirely out of proportion to total loans and capital structure. Of this total $7,268,667.89 is contained in the real estate mortgage loan department, which is divided about equally between criticized loans having workout possibilities, and loans in process of foreclosure that are inadequately secured. Every effort should be made to effect further reduction in this class of paper.

EXCESSIVE LOAN IN VIOLATION OF SECTION 5200 USRS

On Page-8, Insert 1, under the schedule "Loans Exceeding the Limits Prescribed by Section 5200 of the Revised Statutes", there are listed obligations of Transamerica Corporation, its allied interests, and obligations of certain subsidiaries thereof in which the Corporation owns or controls the majority interest, aggregating $22,037,365.07, resulting in a $12,837,365.07 excessive extention of credit. The detail of the various items comprising this excessive loan is shown on Page-8, Inserts 1 and 3 to 26 inclusive. It will be noted therefrom that this violation is comprised of individual items which in themselves are violations of the law. The minutes of the meetings of the Board of Directors do not show that this excessive extension of credit has been specifically approved by them. This violation was listed in the previous report of examination, and previous to that it was listed as a violation of Section 23-a of the Federal Reserve Act as amended. This violation must be reduced to the bank's legal loaning limit of $9,200,000.00 without further delay.

CRITICISMS - cont'd.

LARGE LINES

Reference is made to the three concentrations of credit listed on Page-8, Inserts 2 to 32 inclusive, totaling $76,932,350.84. These concentrations represent approximately 80% of the total capital structure of the bank. Of this amount, $48,447,408.42 is classified as II, $1,289,010.51 as III and $1,712,617.94 as IV - representing 44%, 16% and 30%, respectively, of the total assets so classified.

The Large Line to Transamerica Corporation and its subsidiaries which has been under constant criticism for years, is the largest single concentration in this group and totals $72,798,082.51. This concentration is classified $41,625,569.91 as II and $712,617.94 as IV or 37% and 12% respectively, of the total assets so classified. In addition, loans totaling $17,460,000.00 of this concentration are listed under "Other Loans Especially Mentioned" on Page-9, Insert 1. These combined classifications aggregate $59,798,187.85 or 82% of this concentration is subject to adverse criticism. The liquidation of this group of credits represents the most serious problem with which the bank is confronted.

This large extension of credit to and investment of bank funds in this single interest is entirely out of proportion to the total capital structure of the bank and constitutes an unsafe and unsound banking practice. The history of the debtor and creditor relationship between the corporation and the bank clearly indicates that for practical purposes the management of both are one and the same. This is further manifested by the various ramifications and policies involved in the granting and liquidation of this group of credits in the past, the full detail of which is set forth under the individual items comprising this concentration on Page-8, Inserts 2 to 28 inclusive, thereto.

From a comparative point of view there has been little actual improvement in the aggregate total of these lines for the past several years and the nature and changes in individual items are fully commented upon on the Page and Inserts above referred to. It will be noted therefrom that the management has resorted to the acquisition of illegal assets; diversion of bank profits; to violations of law, viz: Sections 5136, 5137 and 5200 USRS; Section 24 of the Federal Reserve Act, and regulation "U" of the Federal Reserve Board and other unsound practices in its effort to unduly favor Transamerica Corporation and its subsidiaries, without due regard to the soundness of the bank. These past practices must not only cease but immediate steps must be taken to remove for cash and in their entirety all illegal and otherwise objectionable assets acquired in this manner.

The inter-change of collateral and the series of inter-company accounts, shown by the balance sheets of the various controlled subsidiaries, indicate that virtually all of these loans were made for the ultimate accommodation of Transamerica Corporation and its subsidiaries to enable their over-expansion. The major portion of the securities pledged are permanent investments of Transamerica Corporation and its subsidiaries, and past performance indicates that no substantial liquidation can be anticipated from this source. The only manner in which this concentration can be liquidated is through the application of corporate earnings or the liquidation of permanent investments, which, from past performance, would appear to require a definite change in policy on the part of the management of both the bank and the corporation.

Since conversion into the National System in 1927, the bank has declared dividends in the amount of $74,003,300.00. As the owner of 99% of the bank's stock during most of this period, Transamerica Corporation was the chief beneficiary of these dividend payments. Instead of applying a substantial portion of the cash so received on its obligations to the bank, it proceeded to steadily increase its dividend rate to its shareholders, thus forcing the bank to continue carrying this long criticised concentration. In addition, instead of liquidating some of its permanent investments to enable debt retirement, it paid the following cash and stock dividends during the year 1937:

cont'd.

CRITICISMS

LARGE LINES – cont'd.

1-30-37	Cash Dividend	$ 4,630,951.40
7-31-37	Cash Dividend	5,744,601.25
	Sub-total Cash Dividends	10,375,552.65
1-30-37	Extra Dividend Payable in 463,095-7/50 shares of Bancamerica-Blair Corporation with a stated Book Value of	1,706,260.15
7-31-37	Asset dividend payable in 2,297,640-5/10 shares of Bank of America N.T. & S.A. with a stated book value of	59,912,527.45
	Sub-total of Assets Distributed	61,618,787.60
	Grand Total of Dividends in 1937	71,994,340.25

In 1936 the corporation declared and paid dividends in excess of $8,000,000.00 or a total of approximately $80,000,000.00 has been paid out in cash and asset dividends within the past two year period with no apparent regard given to the elimination of its long criticised borrowings from the bank.

The dissipation of its cash resources and a major portion of its most productive and valuable assets through the medium of such unnecessary and unwarranted dividends has seriously weakened the borrowing position of the corporation from both an asset and earning standpoint and renders this concentration subject to even more severe criticism than heretofore. It is inconceivable that the management of the bank was not aware of these contemplated dividend payments and in the interests of sound banking should have violently objected to the payment of the cash dividends since the shareholders were receiving over $61,500,000.00 in asset dividends that could be converted into cash if necessary. The management should have insisted upon the cash being used to retire the balance due under the Inter-America Corporation Contracts instead of accepting the substitution of the illegal assets in lieu of such cash reduction.

The expansion policy of the corporation has only been made possible by the large and unwarranted borrowings from the bank on its capital and fixed assets. In addition to having no apparent regard for the elimination of these borrowings along legitimate lines, it is also apparent that it is little inclined to use its profits to retrench and strengthen its asset position. The entire history of the elimination of the Inter-America Corporation Contracts upon which the bank's management prides itself, illustrates the devious methods it resorted to in favoring Transamerica Corporation and its subsidiaries at the expense of the bank. These methods mentioned above and commented upon in detail under Transamerica Corporation and its subsidiaries Large Line on Page-5, resulted largely in the forgiveness of debt on the secured obligations of the reputedly solvent affiliated corporation, and thereby, further weakened the asset condition of the bank and its already inadequate capital structure.

In view of the foregoing, the time has arrived that the Board of Directors should, in their own interest and in the interests of safe and sound banking take a definite stand and make a determined effort to bring about the early elimination of this highly undesirable concentration through cash payment rather than by continuation of past manipulation and maneuvering. Demand should be made upon the corporation to immediately remove all illegal assets acquired from it; refund all bank profits improperly diverted to it; reduce its excessive borrowings to within legal limitations; and obtain the return of all the collateral previously pledged to secure the Inter-America Corporation Contracts which was released without their authorization. As the chief beneficiary of the $74,003,300.00 of dividends paid by the bank since 1927, the bank has done more for the corporation than it has done for the bank and now that the corporation is no longer the owner of virtually all the stock of the bank, the methods resorted to by the management in the treatment of this concentration will no longer be tolerated.

[illegible]

LARGE LINES - cont'd.

. The A. O. Stewart Large Line, listed on Page-8, Inserts 29 and 30, is in the aggregate amount of $8,242,263.57 and constitutes another concentration of which $5,500,000.00 is classified as II. The collateral securing that portion of this concentration is comprised chiefly of defaulted bonds having a limited and closely controlled speculative market; stock in Transamerica Corporation and this bank; Irrigation District bonds and stocks in liquidating Joint Stock Land Banks and other real estate holding companies. Because of its long history and present status, the bank should insist upon the liquidation of the classified portion of this concentration or require additional high grade collateral and a definite program of reduction.

The concentration in Impounded German Credits, carried in the International Banking Department of San Francisco, listed on Page-8, Insert 31, of this report, is classified $3,321,636.51; $1,269,010.91 and $1,000,000.00 as II, III and IV respectively. Liquidation of these impounded credits involves their conversion into Registered Marks, the market value of which in relation to Free Marks is considered a fair present day value, and these assets have been classified upon this basis. In keeping with a verbal agreement reached with the management, $1,000,000.00 is to be charged off at each examination until such time as the entire exchange loss is eliminated. Under this agreement the remaining loss in this concentration should be eliminated at the time of the first examination in 1939.

OTHER LOANS ESPECIALLY MENTIONED

A total of $39,906,013.13 of loans carried in 132 separate Branches have been listed under this heading on Page-9, Inserts 1 to 5 inclusive, for the primary reasons of unsatisfactory financial statements, disproportionate amount of borrowings, or a shortage of collateral. Included in the above amount is a total of $17,460,000. representing loans made to subsidiaries of Transamerica Corporation, which are commented upon in detail on Page-8, Inserts 3 to 28, inclusive.

In addition to the above, loans carried in 45 separate Branches aggregating $2,273,872.51 have been listed on Page-6, Insert 1, for the reason that they represent unsecured or inadequately secured loans not supported by satisfactory credit information. Over 50% of the dollar amount of these loans is carried in the California-Montgomery Branch at San Francisco. All loans comprising the two foregoing amounts, with the exception of loans to subsidiaries of Transamerica Corporation, are immediately investigated by the Central Credit Department at San Francisco upon receipt of the Branch Reports, and endeavor is made to bring about early correction.

LOANS MADE ON BANK'S OWN STOCK IN VIOLATION OF SECTION 5201, USRS

There are fifty-two loans carried in twenty-three Branches aggregating $8,471,372.15 which are secured in part by 7,456.5 shares of bank's own stock in violation of law, as shown on Page-5, Inserts 5 and 6. The largest loan included in this total is the A. O. Stewart Large Line in the amount of $8,242,263.57, secured by 5,818.3 shares of bank's own stock, which has recently been increased by a new loan to the Farm Land Investment Company, in the amount of $509,725.70.

The major portion of the bank stock has been acquired DPC by virtue of the bank stock dividend recently paid by Transamerica Corporation, and the violations have been chiefly occasioned by Branch Managers making additional advances to borrowers among whose collateral the stock of this bank appears - which under the general pledge agreements secure all advances made by the bank. The management proposes to correct these violations by obtaining specific pledge agreements covering the bank stock pledged.

CONSOLIDATED REPORT

No. of Bank 13044

CRITICISMS - cont'd.

ANTIQUATED REAL ESTATE LOAN APPRAISALS

On Page-9, Inserts 16 and 17, there is a list of 171 Branches in which $5,972,370.35 of real estate loans are being carried that are supported by appraisal certificates which are five years old and over. Immediate correction of this condition has been promised.

BONDS AND SECURITIES

There has been a decrease of $83,873,441.59 in the Bond and Securities account since the preceding examination. Of the total investment of $511,735,475.61, over $498,177,000.00 is invested in Group 1 investment securities, and over $13,558,000. is invested in speculative securities, defaulted bonds and stocks. The bank's investment in bonds and securities is carried on the books at a premium of $14,073,732.44, and reveals a present appreciation of only $3,805,254.42, as compared to an appreciation of approximately $15,000,000.00 in the year 1935, prior to the first write-up of Government bonds.

The book value of Group 2 securities is $8,712,166.38, in which there is a market depreciation of $1,574,866.99 which is classified as III in this report. The book investment in Group 3 bonds is $2,776,396.81 in which a net loss of $91,225.50 is being charged off in this report. The book investment in Group 4 securities is $2,672,644.80 in which a net loss of $669,736.53 is being estimated in this report.

The management has advised that all losses in the bond account have been charged off with the exception of the $706,800.00 loss estimated on the 45,280 shares of National City Bank stock illegally acquired from Transamerica Corporation, as set forth in detail under the heading of "Option to Purchase" in the Large Line to Transamerica Corporation and its subsidiaries on Page-8, Inserts 7 to 15 inclusive, and the $2,190,101.65 net loss which has been estimated in connection with the bonds written up representing that portion of the $14,000,000.00 write-up which still remains on the books, as set forth in detail on Page-13, Inserts 7 to 9 inclusive. Since date of examination this loss has been reported to have been reduced to $1,763,796.11 by liquidation.

On Page-13, Inserts 10 and 11, there are listed thirteen issues of stocks and bonds that have been unlawfully acquired, having a book value of $3,564,197.35. Since the date of examination it has been reported that four of these issues, having a book value of $367,727.67, have been entirely liquidated and a reduction of $61,727.51 has been obtained on four of the remaining issues, thereby reducing the illegal investment to $3,134,741.97. This is comprised chiefly of the two blocks of stock in the National City Bank of New York City which were unlawfully purchased from Transamerica General Holding Company and Transamerica Corporation and which should be removed immediately from the bank's assets by those corporations.

On Page-13, Insert 1, there is listed a block of $545,000.00 par value of bonds issued by the Downtown Properties, Inc., an affiliate of the bank, carried at a book value of $526,520.00 which is classified as III in this report. Inasmuch as the bank owns all the outstanding bond issue with the exception of $5,000.00, for which the bank has deposited a like amount in trust, and for the further reason that the bank owns all the capital stock of this affiliate, the outstanding bond issue should be cancelled and this investment transferred to the Other Real Estate account of the Bank where it properly belongs.

On Page-13, Insert 12, there are listed sixty-five issues of bonds having a par value of $7,414,250.00, a book value of $6,966,033.78, and a market value of $5,168,532.20, which are rated BB or less. Of this amount thirty-three issues, having a book value of $3,559,958.28, and a market value of $2,487,060.70, revealing a depreciation of $1,072,897.58, were rated above BB when purchased. The remaining thirty-two issues, having a book value of $3,406,075.50, and a market value of $2,681,471.50, or a depreciation of $724,604.00, were rated below BB when illegally purchased. All the bonds in this group should be disposed of as rapidly as possible and particularly those in the latter group that were illegally acquired.

cont'd.

CRITICISMS

BONDS AND SECURITIES - Cont'd.

On Page-13, Insert 13, there are listed twenty-five issues of convertible bonds unlawfully acquired, having a par value of $4,026,000.00, a book value of $4,086,073.87, and a market value of $3,365,663.00 revealing a market depreciation of $710,410.87. These bonds should also be disposed of as rapidly as possible.

It is the practice of the Bank to permit profits and losses to remain in the bond account as sales are made which is cleared through the Undivided Profit account once a month. This practice should be discontinued for the reason that the bond account is constantly out of balance with the exception of the clearance date, and the bank is unable to publish a true report of condition.

BOND WRITE-UP

The bank wrote up the cost price of certain United States Government and Municipal bonds to their high market values, thereby capitalizing unrealized appreciation on those securities, which resulted in a total write-up above cost as follows:

Date	Type of securities	Amount of Write-Up
3-21-35	U. S. Securities	$ 5,000,000.00
12-24-35	Municipal Securities	3,000,000.00
10-13-36	U. S. Securities	4,000,000.00
10-13-36	Municipal Securities	2,007,788.34
		14,007,788.34

The total of these write-ups was applied, by various book entries, as a reduction on the Inter-America Corporation contracts. These contracts were eliminated later through a series of transactions which resulted in the bank's present assets identified as "Guaranteed Loans" and "Option to Purchase" which are explained under the Large Line of Transamerica Corporation and its subsidiaries on Page-8. The method employed by the management in applying the amount of these write-ups as reductions on the Inter-America Corporation Contracts resulted in the bank repurchasing an equivalent amount of the non-bankable assets securing those contracts, which upon reacquisition by the bank were charged off immediately against the bank's Undivided Profits account. This repurchase of approximately $14,000,000.00 of non-bankable assets and losses, through the means of a bond write-up, can not be construed as a legal investment of the bank's funds. Those contract obligations could have been collected at their respective maturities by resort, if necessary, to the collateral pledged as security for them had the bank's management seen fit to follow such course. Therefore, the application of the credits arising out of the bond write-ups constitutes the making of a gift or the foregiveness of a secured debt of a reputedly solvent affiliated corporation, neither of which can be justified. The illegality and unsoundness surrounding these transactions was effected by the management without the specific approval of the Board of Directors, upon whom the responsibility for such acts must ultimately rest.

There remains in the bond account 145 issues of Municipal Bonds having a par value of $40,686,312.50, an original cost price of $42,587,823.94, and a written-up carrying value of $45,260,672.43, revealing an aggregate write-up of $2,672,848.49, as shown on Page-13, Inserts 8 and 9. From this amount can be deducted the reserve for amortization of premiums applicable to the write-up on these issues in the amount of $482,746.64, leaving a net write-up of $2,190,101.85. This amount is shown as a loss in this report for the reason that national banks are not permitted to carry investment securities on their books in excess of actual cost to the bank less the required amortization.

The writing up of appreciation in securities without giving consideration to depreciation and losses in other assets is not in accord with sound banking principles. The extent to which the bonds were written up represents an immediate weakening of the asset position of the bank, and this loss classification illustrates the danger of this practice. The bank has been further injured for the reason that the management elected to liquidate the write-up rather than to charge it off, which necessitates the disposal of its holdings in high interest rate government and its choice municipal securities, the proceeds of which are then reinvested in higher premium and lower income rate securities.

CRITICISMS - cont'd.

BANKING HOUSES, FURNITURE & FIXTURES AND OTHER REAL ESTATE OWNED

Attention is directed to Page-14, Insert 1, of this report, showing a joint recapitulation of Banking Houses, Furniture & Fixtures and Other Real Estate Owned. Inasmuch as these accounts are so closely related and inter-mixed, they have been treated together for the purpose of showing the concentration in fixed investments by the bank. The combined total of these accounts amounts to $95,280,437.46, which together with a total of $12,315,049.29 of actual and probable foreclosures on real estate loans, of which amount 365 loans aggregating $7,363,943.00 are in actual process of foreclosure, represents a concentration of $107,595,486.75. This figure approximates the total capital structure as shown by the bank's books. The nature and classification of this undesirable concentration is clearly revealed by the above referred to Insert, which indicates that this group of assets constitutes one of the major problems of the bank.

Details of Banking Houses and Furniture & Fixtures will be found on Page-14, Inserts 1 to 22 inclusive. Included in the bank's book value of this account is $1,361,740.26, represented by five parcels of actual Other Real Estate Owned set up in detail on Page-14, Insert 19. Of this latter amount, two parcels, aggregating $1,168,643.29, were purchased by the bank and have been carried in this account since March 3, 1928. All five parcels should be transferred to and carried as Other Real Estate Owned until they are actually occupied as banking premises, and all published reports of condition should include these items in that account. The small loss classification in these investments represent leasehold improvements and furniture & fixtures on the premises no longer used by the bank as branches.

All of the stock of the affiliated Merchants National Realty Corporation, which is a 100% owned bank premise holding company affiliate, is carried in the bond account at $19,129,108.10 and an additional amount of $203,626.78 has been previously charged off on this investment. Details of this affiliate will be found on Page-14, Inserts 22 to 44 inclusive; Page-14, Inserts 87 to 90 inclusive; Page-20, Inserts 18 to 21 inclusive, and it is treated individually under the caption of "Excessive Investment in Stock of the Affiliated Merchants National Realty Corportion in Violation of Section 23 A of the Federal Reserve Act". This investment is also being included under the heading of Banking Houses and Other Real Estate in this report for the reason that its assets consist of both Banking Houses and illegally acquired Other Real Estate.

Of the bank's investment in the stock of the affiliated Merchants National Realty Corporation, $5,875,000.00 is represented by an illegal cash contribution made by the bank, on July 14, 1937, to the capital structure of the affiliate by increasing the carrying value of its investment in the stock of the affiliate by a corresponding amount. That illegal contribution was made to enable Merchants National Realty Corporation to illegally purchase from Capital Company certain real estate known as "Future and Former Banking Premises". This real estate was originally sold in 1931 by the bank to Transamerica Corporation under an agreement of sale which the bank carried in its loans and discounts. Transamerica Corporation in turn sold the real estate covered by the agreement to Capital Company. Then, the bank, through its wholly owned Merchants National Realty Corporation, repurchased the remaining parcels under the agreement paying cash, by means of the above referred to contribution to Capital Company for the balance then due under the original contract. Transamerica Corporation in turn received payment from Capital Company and then paid the proceeds of the transaction to the bank to eliminate its obligation under the original agreement of sale. The net result of this series of transactions was the illegal reacquisition of real estate, and the elimination of the liability of Transamerica Corporation under its agreement to purchase. The real estate in question is not being used as banking premises, and the following schedule reveals the length of time the remaining parcels have been carried by the bank in one form or another:

Year Acquired	Parcels	Amount
1918	3	304,905.65
1920	1	367,453.89
1922	1	5,976.68
1924	3	69,574.56
1925	1	478,069.11
1927	8	3,166,574.90
1928	3	279,522.85
1929	1	109,267.11
Sub total carried over 5 years.	21	4,821,344.75
1934	1	131,766.09
1936	1	21,623.64
1937	2	77,667.14
1938	1	2,750.00
Sub-total	5	233,806.87
Grand Total	26	5,055,151.62

CRITICISMS

BANKING HOUSES, FURNITURE & FIXTURES AND OTHER REAL ESTATE OWNED - cont'd.

It will be noted that $819,646.58 of the real estate illegally purchased has been sold. This amount should be returned to the bank and its investment in the stock of the Merchants National Realty Corporation reduced in an equivalent amount. The remaining portion of the real estate illegally purchased in the amount of $5,055,151.62 should be immediately removed from the investment in the stock of the Merchants National Realty Corporation and shown as Other Real Estate Owned in all published reports of condition, instead of an investment in bonds and securities. Further Transamerica Corporation should be required to remove from the bank's assets this illegal investment in its entirety without further delay.

Other Real Estate Owned, carried as such, is shown on Page-14, Inserts 45 to 75 inclusive. This account represents a small portion of the aggregate concentration and has heretofore been used primarily as a clearing account for properties acquired under foreclosure and then sold to California Lands, Inc., and Capital Company. There are five parcels of property shown on Page-14, Insert 47, which have been illegally acquired, arising primarily out of the purchase of unit banks and the illegal purchase of the Hellman properties, the proceeds of which were applied on the "Guaranteed Loans". This group of properties should be eliminated in their entirety for cash. The major portion of the Los Angeles subdivision property has been sold out of this account, and is now carried under a Capital Company contract. There still remains sufficient subdivision property, represented by the Oakland subdivisions, to present an asset problem in this type of investment. On this same Insert is a schedule which reveals that 27 parcels, 15 of which are $1.00 properties, aggregating $652,377.52, have been carried beyond the five year statutory period allowed by law, and should be eliminated from the assets without further delay. The major portion of the total amount is comprised of five Oakland subdivision properties which are being illegally carried on the bank's books for the amount of $751,869.72.

Presentation of the gross transactions in Other Real Estate Owned from 1927 to date of this examination is made on Page-14, Inserts 75 to 86 inclusive. This schedule reveals that during the period covered the bank has acquired real estate actually set up on its books in the amount of $98,854,638.51, without taking into consideration the properties acquired under foreclosure and then sold prior to debiting the cost price to the other real estate account, and has reduced this amount through payments, sales, charge-offs and adjustments by the sum of $58,790,707.77, leaving a present net investment of $40,063,930.74. This balance, when combined with the other real estate carried in other accounts, namely in the banking house account, and in the Merchants National Realty Corporation, makes a total investment in Other Real Estate Owned of $46,623,438.85, as shown on Page-14, Insert 76. In addition to this investment there is shown in real estate loans a total of $12,515,049.29 representing actual and probable foreclosures, and hence, potential other real estate. The aggregate of this real estate problem other than banking house, exceeds 50% of the bank's total capital structure, as shown by its books.

The history of performance in liquidating real estate acquired may be viewed in several different ways, but the fact remains that acquisitions have exceeded sales to a point where over 50% of the bank's total book capital structure is invested in these highly undesirable assets, and the bank is still confronted with a serious problem in disposing of the same, as reflected by the above figures. Whether the situation is the result of the bank's policy or method of selling real estate acquired, or of a more fundamental nature, going back to the policy of making and acquiring the original loans, is a problem upon which intensive study and analyses can be made.

The recapitulation of losses and recoveries on foreclosed real estate, and the operating income and expense record in connection with the Other Real Estate Owned account, as shown on Page-14, Inserts 81 and 82, reveals the extent to which the bank has suffered in connection with the working out of its real estate problem. From date of conversion into the National System in 1927, to date, the bank has charged off losses in the amount of $4,812,572.92 on real estate foreclosures prior to setting them up in their Other Real Estate account, and has charged off an additional $5,813,682.72 on Other Real Estate sold and the Real Estate Contracts under which real estate has been sold, or a total amount of $10,626,265.64. Profits realized on the sale of other real estate total $1,412,638.21, of which amount $258,966.79 is represented by the write-up of certain subdivision real estate carried on the bank's books under contract to Capital Company. These transactions have resulted in a net loss to the bank of $9,213,627.43. In addition to the foregoing the bank has paid out $2,067,096.45 as expenses in connection with its real estate holdings, and has paid taxes both on Other Real Estate Owned and under contract to Capital Company and California Lands, Inc. in the amount of $6,539,889.37 up to the year 1937, or a total

CRITICISMS

BANKING HOUSES, FURNITURE & FIXTURES AND OTHER REAL ESTATE OWNED - cont'd.

expenditure of $8,626,985.82. As a credit against these expenditures the bank has received $1,964,715.00 in interest on the real estate contracts, and has had other income of $2,375,284.93, or a total income of $4,339,999.93. The net total expense from operations over income is $4,286,985.89, which together with the losses previously taken in the amount of $9,213,627.43, makes a total loss of $13,511,613.32 suffered by the bank in the liquidation of its real estate problem which is far from being completed.

The management states that an earnest endeavor has been made to dispose of all undesirable properties, and that this has been the principal concern behind past sales performance. However, there has also been a tendency to hold desirable income properties for future appreciation by over-pricing them in the present real estate market. The wisdom of this policy is questioned in view of the fact that of the present investment in Other Real Estate Owned and that which is carried under the California Lands, Inc., and Capital Company contracts, there are 1049 properties representing 48.20% of the total properties, having a book value of $20,234,551.65, or 50.32% of the total amount invested in real estate, which has been carried in excess of the five year statutory period allowed by law, and 1127 properties having a book value of $19,971,995.32 have been acquired since 1934. While there has been a substantial decrease in the number of properties carried, this has resulted in a higher average carrying value for the properties now held, namely, in excess of $18,000.00 per parcel, whereas the average sale in the past has been slightly in excess of $5,000.00 per parcel. It would appear from these figures that a surplus of properties requiring substantial purchaser investment has developed, and the number of highly desirable income properties remains and undisclosed fact, subject to separate analysis for determination. Whatever the result of the analysis, it is evident that the bank has too high a remaining concentration in real estate which has never been considered a suitable bank investment.

Regardless of the large amount of real estate disposed of in the past, the efforts of this department should be redoubled. The recent sales record in itself is subject to criticism only for the reason that it has failed to keep pace with acquisitions. The enormous accumulation of real estate, approximately one half of which is carried beyond the statutory period allowed by law, consititutes a menacing bank problem demanding immediate corrective steps.

DEPRECIATION OF BANKING HOUSE AND FURNITURE & FIXTURES

The following are comparative schedules of depreciation of Banking House and Furniture & Fixtures allowed by the Internal Revenue Department, and taken by the bank for income tax purposes, together with the amount actually charged off against the undivided profit account of the bank:

Year			
1931	1,618,743.85	1,625,754.72	7,010.87 Red
1932	1,738,189.29	1,029,368.57	708,820.72
1933	1,624,040.12	997,767.65	626,272.47
1934	1,581,298.92	978,763.35	602,535.57
1935	1,522,226.10	1,034,326.69	487,899.41
1936	1,540,502.34	1,066,440.50	474,061.84
1937	1,640,044.68	1,133,683.77	506,360.91
	11,465,045.30	8,066,105.25	3,398,940.05
Charged off ...			198,386.29
Amount allowed, not taken ...			3,200,553.76

cont'd.

CRITICISMS

DEPRECIATION ON BANKING HOUSE AND FURNITURE & FIXTURES - cont'd.

	Depreciated Value as shown by the Books of the Bank 12-31-37	Depreciated Value as shown by the "Income Tax" returns 12-31-37	Depreciation taken for Tax purposes, but not charged off 12-31-37
Bank Premises	26,621,901.47	25,358,519.04	1,263,382.43
Leased Premises, alterations	765,913.12	750,274.60	15,638.52
Safe Deposit Equip	2,889,305.75	2,832,221.03	57,084.72
Fixtures	3,070,676.75	1,979,941.08	1,090,735.67
Furniture	1,978,982.04	1,205,269.62	773,712.42
Automobile equipment	46,525.94	46,525.94	0
Addressograph Equip	2,814.66	2,814.66	0
Totals	35,376,119.73	32,175,565.97	3,200,553.76

RATE OF DEPRECIATION

	1931	1932	1933	1934	1935	1936	1937
uildings	2 to 4% (a) Class A-B-C-D	2% (b)	2% (b)	2% (b)	.021277	.021739	.022222
eased Premises lterations	Life of Lease	7% (b)	Life of Lease	Life of Lease	Life of Lease	Life of Lease	Life of Lease
urniture	6% (a)	6% (b)	8% (b)	8% (b)	.105263	.117647	.102526
ixtures	6% (a)	6% (b)	6% (b)	6% (b)	.105263	.117647	.112682
afe Deposit	2% (a)	2% (b)	2% (b)	2% (b)	.021277	.021739	.021635
utomobile Equip.	20% Cost	20% Cost	20% Cost	20% Cost	20% Cost	20% Cost	20% Cost
ddressograph	$500.Mo.	$500.Mo.	$500.Mo.	$500.Mo.	$500.Mo.	Fully depreciated.	10%

LEGEND: (a) Rate of depreciation on original cost.

(b) Rate of depreciation on depreciated value as of 12-31-31.

It will be noted from the foregoing schedules that the full allowable rate of depreciation was taken during the year 1931, which rate of depreciation was based upon the original cost. It will also be noted that during the year 1932 the rate of depreciation was arbitrarily changed by the management and it was then based upon the depreciated value of the buildings and fixtures as of December 31, 1931 instead of original cost. During the year 1932 the bank took credit in its income tax return for a deduction of $1,738,189.29, which represents the amount allowed by the Bureau of Standards and the Internal Revenue Department, but only charged off $1,029,368.57 against the undivided profit account, thereby capitalizing $708,820.72 of depreciation in this account. Since the rate of depreciation was arbitrarily changed by the bank in 1932 to the end of the year 1937, a total of $3,200,553.76 of depreciation has been allowed to accumulate in the banking house and furniture & fixture accounts, and this amount is classified as III in this report. The only reason that this amount was not set up as a loss at this time is that a complete study is to be made of the bank's investment in these fixed assets during the course of the next examination in an endeavor to determine the actual depreciation loss in these accounts.

In view of the heavy investment in these fixed assets, sound banking practice requires that the bank not only charge off the above amount for which it has taken credit in its income tax return, but in the future take the full allowable rate of depreciation as a charge off on its books as well as for income tax purposes.

CRITICISMS - cont'd.

SERVICE CHARGED ON DORMANT ACCOUNTS

On Page-16, Insert 1, there is a schedule showing that service charges in the net amount of $590,754.49 have been charged against dormant accounts since April 10, 1933. The confiscation of dormant balances through such service charges is contrary to the ruling of the Comptroller of the Currency whose long established position has been that the only justification for making a service charge upon an account is to cover the expense of caring for that account, and that such charge should not exceed a fair relationship to the actual cost of the service rendered. Since these dormant accounts are carried in the inactive ledger they do not entail any material expense, and all charges heretofore assessed contrary to such ruling should be restored to the accounts charged. The bank refunds such service charges upon the demands of customers, which practice is an admission of their liability on the charges assessed. For the bank to make an improper service charge against a dormant account and credit the proceeds to its profits results in the confiscation of property of the depositor, and in the bank's statement incorrectly reflecting the liabilities of the bank. The net total of confiscated dormant accounts in the amount of $590,754.49 has been deducted from the total capital structure in determining the net sound capital of the bank, and all published reports of condition should include this amount with the deposit liability.

CRITICISMS OF CALL REPORTS OF CONDITION AS OF JUNE 30, 1938 AND SEPTEMBER 28, 1938.

The errors in the two last reports of condition are set forth on Page-17, and Inserts 2, 3 and 4 thereof. These errors embody the incorrect reporting of interest earned and not collected; unearned interest collected; the real estate contracts with California Lands, Inc., and Capital Company, as Loans and Discounts; the real estate illegally acquired by the Merchants National Realty Corporation as an investment in securities; other real estate owned carried under Banking Houses; and the $2,000,000.00 charge off on the Impounded German Credits as a reserve for interest, taxes and other expenses accrued and unpaid. They also embody omissions through the failure to report the charged off portions of loans to officers and directors; the excessive loan to Transamerica Corporation and its subsidiaries; the bank's investment in the affiliated California Foundries, Inc.; and the filing of a report on the affiliated California Foundries, Inc.

The correction of the above errors and omission will materially change the reports of condition specifically criticised. It is believed that full correction should be made to reflect the true condition of the bank as required by law. Therefore it is requested that the Comptroller's office instruct the bank to file amended reports and publish the same if deemed necessary.

AFFILIATES

The reports of all affiliates owned or controlled directly by the Bank of America, N.T. & S.A., are detailed on Page-20, Inserts 1 to 21, of this report, to which attention is directed. Particular attention is directed to the illegal acquisition of other real estate by the Merchants National Realty Corporation, a wholly owned bank premise affiliate of the bank, and to the excessive investment in the stock of this affiliate by the bank in violation of Section 23 A of the Federal Reserve Act, which is treated with in the caption next below.

EXCESSIVE INVESTMENT IN STOCK OF THE AFFILIATED MERCHANTS NATIONAL REALTY CORPORATION IN VIOLATION OF SECTION 23 A, OF THE FEDERAL RESERVE ACT, AND THE ILLEGAL PURCHASE BY THE AFFILIATE OF OTHER REAL ESTATE.

The Merchants National Realty Corporation is a wholly owned affiliate of the Bank and serves as a bank premise holding company. The bank has invested $19,332,734.86 in the capital stock of this affiliate, of which amount $203,626.76 has been charged off, leaving a net carrying value of $19,129,108.10. As shown on Page-20, Inserts 18 to 21 inclusive, the legal investment in the capital stock of this affiliate on June 16, 1934, was $5,006,360.16. Since June 16, 1934, the bank has invested the additional sum of $14,326,374.70 in the capital stock of the affiliate in direct violation of the provisions of Section 23 A of the Federal Reserve Act, as detailed on the Page and Inserts referred to above.

cont'd.

CRITICISMS

EXCESSIVE INVESTMENT IN STOCK OF THE AFFILIATED MERCHANTS NATIONAL REALTY CORPORATION IN VIOLATION OF SECTION 23 A, OF THE FEDERAL RESERVE ACT, AND THE ILLEGAL PURCHASE BY THE AFFILIATE OF OTHER REAL ESTATE.

Of this illegal investment, on July 14, 1937, the affiliate illegally purchased Other Real Estate in the amount of $5,875,000.00, known as the "Ex-Bank Premises", from Transamerica Corporation through its subsidiary, the Capital Company, in direct violation of Section 5137, USRS. The history of this transaction is detailed on Page-14, Inserts 84 to 90 inclusive. A reduction of $819,848.38 has been obtained on the real estate illegally purchased, reducing the book value of same to $5,055,151.62, the detail of which will be found on Page-14, Inserts 22 to 44 inclusive. Of this remaining real estate, twenty-one parcels, having a book value of $4,821,344.75, were originally acquired by the bank between the years 1918 and 1929, while the remaining five parcels, having a book value of $233,806.87, have been acquired since 1934.

In order to effect correction of these violations the following changes and corrections are necessary:

(a) Transfer of banking premises contributed to Merchants National Realty Corporation's surplus account subsequent to June 16, 1934, back to the bank's books into the banking premises owned account where they should properly be shown in all future reports of condition.

(b) Reduce the amount of the bank's investment in the affiliated Corporation by the amount of the cash contributed to acquire new premises by transferring those acquired premises to the bank premises owned account of the bank where they should be properly shown in all future reports of condition.

(c) Reduce the bank's investment in Merchants National Realty Corporation in the amount of the cash contributed for the retirement of that Corporation's mortgage lien and outstanding preferred stock by transferring sufficient of the Corporation's assets to the bank's books as banking premises owned, inasmuch as the increased equity in those assets was effected by these cash contributions.

(d) Eliminate for cash consideration the illegal assets acquired through the cash contributions on 7-14-37, of $5,875,000.00, whereby the bank reacquired, through this wholly owned affiliate, Other Real Estate Owned from Transamerica Corporation through the Capital Company.

(e) In general, make all necessary corrections to return the bank's investment in this wholly owned affiliate to its legal status as of June 16, 1934, and in the future, to handle its investment in, and the operations of Merchants National Realty Corporation in accordance with the provisions of law surrounding such investments by national banks.

INADEQUATE CAPITAL STRUCTURE AND EXPANSION PROGRAM

Attention is invited to Page-3, wherein the net sound capital structure of the bank is shown as $102,324,220.14 or a ratio of capital to deposits of $1.00 to $13.49. The large concentrations of undesirable and frozen assets, commented upon throughout the report, and the nature of the bank's business, as represented by approximately 500 branches in over 300 separate communities scattered over the entire State of California, makes a strong net capital structure imperative.

Since January 1, 1932, Bank of America, N.T. & S.A., has purchased 121 banks, including the branches of those banks, through which medium it acquired deposits totaling $119,881,468.00. The combined capital stock outstanding of these banks amounted to $8,063,775.00, and surplus and undivided profits totalled $3,284,497.00, or an aggregate capital structure of $11,348,272.00, which was eliminated by the conversion of the banks into branches.

cont'd.

CRITICISMS

INADEQUATE CAPITAL STRUCTURE AND EXPANSION PROGRAM - cont'd.

Without taking into consideration the assets purchased subject to adverse classifications, the bank set up in its resources certain fixed assets as follows:

Banking Houses	$2,324,791.00
Furniture & Fixtures	1,024,348.00
Other Real Estate Owned	728,794.00
Total Fixed Assets	4,077,933.00

These assets were taken to offset a like amount of deposit liability assumed. In some cases the above banking houses are presently carried in the bank's bond account, represented by its investment in the stock of the affiliated Merchants National Realty Corporation. In the main the Other Real Estate Owned has been sold to Capital Company or California Lands, Inc., either for cash or under contracts for sale. The figures used have been taken from balance sheets of banks purchased at the time of take over, and no attempt has been made to reconcile the assets and capital account adjustments involved in the individual transactions.

In addition to the banks purchased, the Bank of America, N.T. & S.A., has also established forty-two (42) new branches in various locations without taking over the business of existing banks or branches. The total of this expansion in branch establishment is 166 branches. In most cases these branches are presently in operation, but in some cases the purchased banks were consolidated with existing branches, or the newly established branches were consolidated with other units of the bank.

Concurrent with the acquired growth reflected above, the bank has had a remarkable normal growth of deposits, exceeding $300,000,000.00 during this period, making a total deposit growth of approximately $420,000,000.00, while the net additions to profits has only amounted to $3,725,629.00 after dividend payments of $26,800,000.00. It would appear, therefore, that in the expansion program negligible thought was given to increased capital structure to keep it in proper proportion to the large increase in deposit liability.

In eliminating the former existing banking capital in the banks purchased there has been no apparent attempt, along any defined conservative line, to replace it during the planned expansion and normal growth of the bank. To consider the entire banking structure of the State, there has been withdrawn from the banking capital structure $11,348,272.00 of shareholders' investment, and the deposits formerly protected by this investment have been taken over by a bank showing inadequate capital structure, in ratio to deposits. Any policy of expansion that inherently weakens the banking structure of the State as a whole should be revised and immediate steps should be taken to provide an adequate capital position in order to furnish depositors the necessary protection as measured by commonly accepted standards and as dictated by ordinary conservative policies.

DIVIDEND POLICY

Since the resumption of dividends in 1933, the dividend rate has been increased steadily from the annual rate of 6% in that year to the present rate of 19.2%, or the dollar amount basis of $9,600,000.00 annually. During the first period of 1938, net earnings from operations were $6,793,421.00, as shown by the Schedule of Operations on Page-4. During this same period dividends in the amount of $4,800,000.00 were paid to shareholders, leaving only $1,993,421.00 for the elimination of losses and other unbankable assets and the correction of the grossly under-capitalized condition of the bank. It is manifestly unsafe and unsound to disburse in the form of dividends the major portion of the bank's operating earnings while criticized and fixed assets, regardless of who is responsible for them, aggregate over $233,000,000.00. This total, as revealed by the recapitulation of criticized and fixed assets at the conclusion of this section of the report, is in excess of 200% of the book capital structure of the bank. They are commented upon throughout the report and are occasioned principally by large and highly undesirable frozen concentrations rather than by an accumulation of widely scattered small problems, and their combined total exceeds the bank's net free capital structure by $100,979,933.14, as shown by the recapitulation above referred to. These concentrations were present in the bank for several years prior to the resumption of dividend payments in 1933, and have been under constant criticism in each report of examination since.

CRITICISMS

DIVIDEND POLICY - cont'd.

The ratio of a bank's capital structure to its deposits should be in keeping with the requirements dictated by safe and sound banking practices. This report of examination reveals a ratio of $1.00 net sound capital to each $13.49 of deposit liability. On the basis of the generally accepted ratio of one to ten, there is a deficiency of sound capital in excess of $39,000,000.00 after deducting from the book capital structure all of the III and IV classifications and liabilities not shown on the books. An adequate capital structure is not supplied by mere compliance with minimum legal requirements. The determination of what constitutes an adequate capital in any given case necessitates a consideration of the nature of the bank's assets, as well as its liabilities. Because of the large volume of criticised and fixed assets still present in the bank, the ratio of capital structure to deposit liability cannot be considered as being in proper proportion. This condition has existed for years and has been the subject of constant and specific criticism in past reports of examination.

Operating earnings of the bank have shown a favorable increasing trend since 1933. Instead of the management applying this increase in earnings toward the elimination of losses and the strengthening of the sound capital structure, it has dissipated them by constantly increasing the dividend payments to shareholders. It then had to depend almost entirely upon the non-recurring profits on the sale of securities, which is an earning factor in only a highly favorable securities market, for the elimination of estimated losses. It further resorted to the unsound practice of writing up previously charged off assets and capitalizing bond appreciation, applying the proceeds of such unrealized profits toward the forgiveness of the secured obligations of a solvent affiliate, thereby further weakening the asset condition of the bank.

In view of the foregoing, before any dividends were paid, earnings should first have been used to eliminate all losses and a reasonable portion of other unbankable assets; to establish an adequate reserve against possible future losses; and to establish a proper ratio of net sound capital to deposits. It is obvious that the bank's dividend policy has been at variance with these principles, and constitutes an unsafe and unsound banking practice. This becomes more apparent when consideration is given to the fact that during most of the period since the resumption of dividends, approximately 99% of the bank stock was owned by Transamerica Corporation, which was the chief beneficiary of the bank's unwarranted dividend policy. Instead of the bank insisting upon the application of a substantial portion of these dividends upon the large and severely criticised borrowings of the Corporation and its subsidiaries, it was permitted in turn to dissipate its earnings in constantly increasing dividend payments to its shareholders. At the present time this Corporation owns over 40% of the bank's stock, and therefore receives the largest single benefit from the continuance of an unsound dividend policy. These facts make the conclusion inescapable that Transamerica Corporation and its subsidiaries have been unduly favored without due regard being given to the interests of the bank. The bank's dividend policy has been severely criticised in each report of examination since resumption, but the dividend rate has been increased steadily as earnings have increased, in the face of this constant criticism.

On September 13, 1938, the Comptroller of the Currency dispatched a telegram to the resident Examiner at Los Angeles, and caused it to be read to the Board of Directors at the regular meeting during which a semi-annual dividend was declared. This telegram directed attention to the provisions of Section 30 of the Banking Act of 1933, and warned specifically against the declaration of any dividends unless proper provision was first made for criticised assets. Despite the warning, and in face of repeated criticism of the dividend policy in all the reports of examination over a long period of time, one of the largest dividends since conversion into the National System was declared and paid.

The disbursement of the major portion of the bank's operating earnings through the medium of excessive and unwarranted dividends cannot be tolerated in the future, and it is expected that the Board of Directors will hereafter either entirely discontinue payment of dividends or establish a dividend policy strictly in keeping with the asset condition and the capital position of the bank consistent with safe and sound banking practices and principles.

CRITICISMS - cont'd.

VIOLATIONS OF LAW

Section 5200 of the Revised Statutes, as amended, has been violated by the granting of an excessive loan to Transamerica Corporation and its subsidiaries, as set forth on Page-8, Insert 1, in the amount of $22,037,365.07. The details of this violation are set forth on Page-8, Inserts 3 to 26 inclusive, thereto.

Section 5201 of the Revised Statutes, as amended, has been violated by the granting of loans on the security of the shares of the bank's own stock, as set forth on Page-5, Inserts 5 and 6. The aggregate dollar amount involved is $2,471,372.15 secured in part by 7,458.5 shares of the bank's own stock.

Section 5136 of the Revised Statutes, as amended, has been violated by the purchase by the bank for its own account, the following investment securities in violation of the limitations and restrictions prescribed by the Comptroller of the Currency by the Investment Securities Regulation:

(a) 1,600 shares of stock of the National City Bank of New York were illegally purchased from Transamerica General Corporation (formerly Transamerica General Holding Corporation) on 3-14-35, as shown on Page-13, Insert 11. This stock is carried on the books at $43,200.00; a total of $36,099.00 has been previously charged off, and an additional loss of $1,983.00 is estimated in this report.

(b) 45,280 shares of stock of the National City Bank of New York were illegally purchased from Transamerica Corporation on 7-14-37 as shown on Page-13, Insert 11. The full detail of this transaction is set forth under "Option to Purchase" under the Large Line to Transamerica Corporation and its subsidiaries on Page-8, Inserts 7 to 15, inclusive. This stock is carried on the books at $2,173,440.00, and a loss of $708,600.00 is estimated in this report.

(c) Eleven issues of bonds having a book value of $1,367,557.35 were illegally acquired for the various reasons stated on Page-13, Inserts 10 and 11. Some of these issues are duplicated in(d) and (e) below.

(d) Thirty-two issues of bonds having a book value of $3,406,075.50 and a market value of $2,681,471.50, revealing a depreciation of $724,604., were illegally acquired for the reason that they were rated BB and lower when purchased, as shown on Page-13, Insert 12.

(e) Twenty-five issues of convertible bonds were illegally acquired, having a book value of $4,026,073.87, and a market value of $3,365,663.00, revealing a depreciation of $710,410.87 as shown on Page-13, Insert 13.

Section 5137 of the Revised Statutes, as amended, has been violated by the purchase of the following enumerated parcels of real estate not necessary for the accommodation of the bank in the transaction of its business, and by holding real estate not necessary for such accommodation of the bank for longer periods than five years:

(a) The Merchants National Realty Corporation, a 100% owned bank premise holding company affiliate of the bank, illegally repurchased $5,875,000.00 of real estate formerly known as the "Future and Former Banking Premises" from Transamerica Corporation through its subsidiary Capital Company on July 14, 1937. Of the real estate so purchased there remains on the books 26 parcels having a book value of $5,055,151.62 of which 21 parcels, having a book value of $4,821,344.75 were originally acquired by the bank prior to the year 1929, or far beyond the five year statutory period allowed by law. The details of this transaction are set forth on Page-14, Inserts 22 to 44 and 87 to 90 inclusive; Page-20, Inserts 18 to 21 inclusive, and in this section of the report under the caption of "Banking Houses, Furniture & Fixtures and Other Real Estate Owned".

cont'd.

CRITICISMS

VIOLATIONS OF LAW - cont'd.

(b) On Page-14, Insert 47 there are listed five groups of real estate having a book value of $184,357.88 which have been acquired in violation of law. Of this amount, losses of $27,622.09, $[illegible] and $2,402.00, or a total of $4[illegible],057.67, have been estimated on [illegible] Insert 48, on the Alhambra and Ventura Avenue former and future banking premises, and the Corporation of America-Hellman Deal, respectively.

(c) On Page-14, Insert 47, there are listed twenty-six parcels of real estate having a book value of $252,377.5[illegible] which have been held over the five year statutory period allowed by law.

(d) On Page-14, Insert 19, there are listed five parcels of Other Real Estate which are being improperly carried under Banking Houses, having a book value of $1,361,740.25, of which amount two parcels having a book value of $1,188,643.29 were purchased by the bank on 3-5-28, and another parcel having a book value of $[illegible],710.[illegible] was purchased by the bank on 1-28-33. These three parcels are carried at $1,341,359.90, and are considered as having been acquired both in violation of law and carried beyond the five year statutory period allowed by law for the reason that the properties have never been used as banking premises during the long period of ownership.

(e) An analysis of the real estate being carried under the California Lands, Inc. Contracts shown on Page-8, Insert 1[illegible], reveals that 500 parcels of real estate having a book value of $7,044,251.[illegible], or 50.41% of the total amount of the contracts, have been carried beyond the five year statutory period allowed by law.

(f) An analysis of the real estate being carried under the Capital Company Contracts shown on Page-6, Insert 21, reveals that 521 parcels of real estate having a book value of $12,337,496.94, or 49.51% of the total amount of the contracts, have been carried beyond the five year statutory period allowed by law.

Section 24 of the Federal Reserve Act, as amended, has been violated by the making and purchasing of $16,152,269.83 of real estate loans that do not conform with the provisions of this section as shown by the recapitulation on Page-9, Insert 6. One of the more recent and outstanding of these violations is the acquisition of the Western Furniture Exchange, Inc., illegal second real estate mortgage in the present amount of $560,000.00, having a fifteen and one-half year maturity, from Transamerica Corporation, the full details of which are set forth under the Large Line to Transamerica Corporation and its subsidiaries on Page-8, Inserts 25 and 27.

Section 23 A of the Federal Reserve Act, as amended, has been violated by the excessive investment in the stock of the Merchants National Realty Corporation, a wholly owned bank premise holding company affiliate of the bank, after June 16, 1940, as set forth on Page-20, Inserts 1 to 21, inclusive. A loss of $203,[illegible].78 has been previously charged off on this illegal investment.

Regulation "U" of the Federal Reserve Board has been violated by the illegal extension of credit to Inter-Continental Corporation, which is 100% owned by Transamerica Corporation through the wholly owned Transamerica General Corporation, as set forth under the Large Line to Transamerica Corporation and its subsidiaries on Page-8, Insert 24.

Section 22 K of the Federal Reserve Act, as amended, provides that if the directors and officers of any member bank shall knowingly violate or permit any of the agents, officers, or directors of any member bank to violate any of the provisions of this Section or Regulations of the Board made under authority thereof, every director and officer participating in or assenting to such violation shall be held liable in his personal and individual capacity for all damages which the member bank, its shareholders, or any other persons shall have sustained in consequence of such violation. Specific attention of the directors is called to their individual liability in connection with the losses sustained in the past; those that are being estimated at this time, and those that may develop in the future in connection with the [illegible] violations of law.

CRITICISMS - cont'd.

MANAGEMENT AND SUPERVISION BY DIRECTORS

The Directors are required to give to the bank that degree of supervision contemplated by law and their oaths of office, and to see that the matters brought to their attention are corrected or adjusted. Unsatisfactory conditions in banks are due generally to the failure of the Directors to direct. While they are not required to devote their entire attention to the details of the business management of the bank, and may commit routine matters to their duly authorized officers, provided that they retain and exercise a general supervision, they do not discharge the duties imposed upon them by law by reposing the entire administration of the business affairs of the bank in the active management.

The national banking laws place upon Directors the responsibility for the selection and retention of Officers, for defining their duties and for prescribing the manner in which the business of the bank shall be conducted. In short, the responsibility for the proper conduct of the affairs of the bank is placed by law upon the Board of Directors, and that responsibility cannot be passed by them to the officers of the bank, or to the supervising authority. It is the duty of the Board of Directors to determine the policy of the bank, and of the management to execute that policy. The Board is not performing that duty when it permits the management to usurp its prerogatives, nor when it gives blanket authority to the management to conduct the affairs of the bank.

In most instances the minutes of the Board of Directors reflect only a cursory and perfunctory supervision by that management body. Under the plan of organization the Board appoints various committees to supervise the operating functions of the bank, and in delegating those powers, assumes responsibility for their acts.

There is no criticism of the committee plan of organization. Theoretically, it will serve the purpose of any well managed bank. However, in checking the minutes of the Board it is found that the various reports of the committees to that body are only included by reference. Upon examining committee reports as submitted to the Board, they appear to be lacking in sufficient detail to be of much value. This is especially true in connection with the major items criticised in this report. A complete check of such items failed to reveal any specific mention or approval of them in the Minutes of the Board. Complete information should be submitted to the Board so that the individual members thereof may be in a position to exercise independent supervision and judgment in connection with all problems and other affairs of the bank more in keeping with the responsibilities they are charged with by law, and the trust vested in them by the shareholders they represent.

No set rule or formula can be developed relative to the method of keeping the minutes of the Board. The statute requires specific approval by the Board of Directors in all matters of policy, reports of committees, and matters of major importance should be specifically approved by the Board of Directors. In addition thereto, the minutes should be in sufficient detail to indicate that the Directors are currently and specifically advised on the affairs of the bank. The minutes constitute a permanent record of the proceedings of the Board and should disclose the approval or disapproval by the Board of acts of its committees and of the management.

Other large national banks do not experience any physical limitations in properly recording the proceedings of the Board of Directors and its committees in sufficient detail to provide an adequate record of the Board's determination of matters of policy, and its position on matters of major importance to the bank.

Early correction of this criticism has been promised by the management.

CRITICISMS - cont'd.

IN CONCLUSION

The following recapitulation is shown to present a combined picture of the bank's major problems, in relation to the total book capital structure:

RECAPITULATION OF CRITICISED AND FIXED ASSETS, SHOWING THE MAJOR PROBLEMS OF THE BANK AND THEIR RELATION TO ITS TOTAL BOOK CAPITAL STRUCTURE (Duplications eliminated).

Title of Assets	Book Value	II	III	IV
...mercial and Real Estate ...ans Held in Branches.	57,649,588.67	54,066,452.47	979,991.17	1,517,762.87
...ans Criticised Under "Other Loans ...ecially Mentioned" Held at Branches.	22,446,013.13			
...ans Criticised As "Inadequately ...ured or Improperly Supported" ...ld at Branches.	2,273,672.91			
...nsamerica Corporation and Subsidi-...ries Large Line, including $17,460,000. ...f Loans Under "Other Loans Especially ...ntioned". (Real Estate Sales Con-...racts Shown Separately).	36,226,287.46	5,055,774.66		712,617.94
... D. Stewart and Affiliated Lines.	6,242,283.57	3,500,000.00		
...anded German Credits	5,891,984.16	3,321,838.51	1,289,010.51	1,000,000.00
...pital Company and California Lands, ...c. Real Estate Sales Contracts.	36,569,795.05	36,569,795.05		
...ssified Bonds	3,175,321.74	30,099.08	2,116,193.17	2,201,152.83
...king Premises Owned	27,570,745.05	1,363,950.37		389.80
...niture & Fixtures	8,374,037.34			
...preciation on Banking Houses, ...niture & Fixtures, not taken ...the Bank's Books.			3,200,553.76	
...chants National Realty Corp.	19,129,108.10	5,055,151.62		
...er Real Estate Owned.	3,636,751.92	3,437,404.68		199,347.24
...rdrafts.	17,835.68	14,530.14	623.09	2,682.45
...er Assets.	1,970,888.80	51,550.02	728.27	249,677.97
Total . . . . :	233,376,513.58	112,468,546.80	7,585,059.97	5,883,631.10

Total Classified as II		112,468,546.80
Total Classified as III		7,585,059.97
Total Classified as IV		5,883,631.10
Sub-total of Classified Assets		125,937,237.87
Total Assets Criticised Under "Other Loans Especially Mentioned".		39,906,013.13
Total Assets Criticised As "Inadequately Secured or Improperly Supported".		2,273,672.91
Total Classified and Criticised Assets		168,117,123.91
Total Book Capital Structure	112,591,135.71	
Less: Unclassified Fixed Investments in Banking Premises, Furniture & Fixtures, Merchants National Realty Corp., etc. (net)	45,453,944.94	
Net Free Book Capital Structure		67,137,190.77
Total of Classified and Criticised Assets In Excess of the Free Net Book Capital Structure		100,979,933.14

CRITICISMS

IN CONCLUSION - cont'd.

The above recapitulation illustrates that the major problems of the bank are serious in nature. The fixed assets included therein have an aggregate book value of $233,376,513.56, of which amount $168,117,123.91 is specifically subject to adverse classification and criticism. It will be noted that the $45,453,944.94 investment in Banking Houses, Furniture & Fixtures and the stock of the Merchants National Realty Corporation, a bank premise holding company affiliate, has not been adversely classified, but has been deducted from the total book capital structure in order to arrive at the net free book capital structure. It is recognized that banking premises and furniture & fixtures are necessary in the conduct of a banking business. It must also be recognized that such assets are real estate and other fixed investments upon which no liquidation is contemplated. Such investments are not criticised within reasonable limits, but when the proportion of these investments to the capital stock is so large, consideration must be given to them in connection with the tremendous other real estate problem and in relation to the general asset condition of the bank.

It will be noted that classified and criticised assets exceed the free book capital structure of the bank to the extent of $100,979,933.14. This means that the entire invested capital of the shareholders is absorbed by classified and criticised assets, and in addition thereto, the above amount of depositors' funds is also invested in this type of assets. In view of the foregoing, the condition of this bank cannot be considered other than highly unsatisfactory, and in the interests of safe and conservative banking, a larger proportion of the generous operating earnings of the bank should be used for the elimination of losses and other unbankable assets, and the strengthening of the sound capital structure of the bank. This unsatisfactory condition should not be permitted to continue nor should the strength of this Bank continue to be subordinated to current benefits to shareholders, as evidenced by the excessive dividends now being paid. The problems disclosed by this report demand the combined constructive efforts and attention of both the Directors and the management.

Form ...
TREASURY DEPARTMENT
Comptroller of the Currency—Examiner

CONSOLIDATED REPORT

No. of Bank 13044

SUMMARY OF CLASSIFICATIONS

I. ... assets, or portions thereof, which are not adversely classified. These assets are not shown in the summary below.

II. ... assets, or portions thereof, which appear to be of unsatisfactory quality as credit risks or otherwise unsatisfactory as bank assets. Included in this classification, are: loans scheduled on page 7, that portion of the bank's fixed assets considered excessive, holdings of other real estate, and other undesirable assets as scheduled. There exists in such assets the possibility of future loss to the bank unless they receive the careful and continued attention of the management.

III. ... assets, or portions thereof, the ultimate collection or value of which is doubtful and in which a substantial loss is probable but not yet definitely determinable in amount. Assets so classified should receive the vigorous attention of the management with a view to strengthening the items or salvaging whatever value may remain.

IV. ... assets, or portions thereof, regarded by the examiner as uncollectible or worthless and as estimated losses. Amounts so classified should be promptly charged off in order that the bank's books and statements may more properly reflect the bank's condition.

Resources	II.	III.	IV.	Estimated value of assets, not shown on books
All loans and discounts (Inserts #1 & #2)	102 515 860 89	2 265 001 66	2 517 762 87	
Overdrafts	14 530 14	623 09	2 682 45	
Premium on Bonds	0	0	0	
Bonds, securities, etc.	30 099 08	2 118 153 17	2 913 770 77	3 805 254 42 (Bond Apprec.
Banking house	1 363 950 37	0	389 80	
Furniture and fixtures	0	0	0	
Other real estate	3 437 404 68	0	199 347 24	
Cash Items	0	0	0	
Shortages	0	0	0	
Other (describe) Page 10	51 550 02	728 27	249 677 97	
...hants National Realty Corp.	5 055 151 62	0	0	
...eciation on Banking House ...rniture and Fixtures.	0	3 200 553 76	0	
TOTAL	112 468 546 80	7 585 059 97	5 883 631 10	

Was request made that the estimated losses be charged off? ... Yes

Were the entries made during the examination? ... A major portion of the entries were made during the examination. The balance of charge offs will be made upon receipt of the Report.

Does the bank maintain adequate reserves for contingencies and other possible unsatisfactory features in its assets, including reserves against the Bond Account?

Reserves not considered adequate in line with the large volume of criticised assets. The major portion of the reserves as shown is for self-insurance, and therefore not a general contingency reserve.

CAPITAL STRUCTURE

Classes of Stock	Par	Number of Shares	Annual Dividend Rate	Aggregate Retirable Value	Amount
Preferred "A"—RFC	0				
Preferred "A"—Public	0				
Preferred "B"	0				
Common	12.50	4,000,000	19.2%	par	50 000 000 00

Total Capital Stock		50 000 000 00
Surplus	42 000 000 00	
Net undivided profits	18 087 078 99	
Reserves for contingencies	1 766 248 36	
Reserves on account of retirement of preferred stock	0	
Unallocated profit on securities sold prior to date of examination.	737 808 36	62 591 135 71
Total Capital Structure as Shown by Books		112 591 135 71
LESS: 50% of Classification III	3 792 529 98	
Classification IV	5 883 631 10	
Liabilities not shown on the books- (Page-15) [illegible]	590 754 49	10 266 915 57
Adjusted Capital Structure After Above Deductions		102 324 220 14

RESERVE

1. Is required reserve with Federal Reserve Bank being maintained? ... Yes.
2. Are reports submitted to the Federal Reserve Bank for the purpose of determining the required reserve properly prepared? Yes.

NOTE: The directors should ... [illegible]

(Classification ...)

[illegible] DEPARTMENT
[illegible]

CONSOLIDATED REPORT

No. of Bank 13044

LOANS EXCEEDING THE LIMITS PRESCRIBED BY SECTION 5200 OF THE REVISED STATUTES

[illegible]	INDIVIDUAL AMOUNT	TOTAL AMOUNT
[illegible] OF TRANSAMERICA CORPORATION AND OBLIGATIONS OF [illegible] THEREOF IN WHICH THE CORPORATION OWNS OR [illegible] A MAJORITY INTEREST		
[illegible] Corporation		
[illegible] Loans - Guaranteed by Transamerica Corp.		4 665 220 06
[illegible] Company		
[illegible] secured line	832 100 00	
[illegible] for collection	41 761 36	873 861 36
[illegible] Agricultural Credit Corporation - Direct unsecured loan		75 000 00
[illegible] Lands, Inc.		
[illegible] secured and unsecured loans	382 417 93	
[illegible] estate loans discounted	194 865 70	577 283 63
[illegible]		
[illegible] real estate loan	175 000 00	
" " " "	350 000 00	
" " " "	225 000 00	
" " " "	166 000 00	916 000 00
[illegible] Corporation		7 000 000 00
[illegible] Service Corporation		5 650 000 00
[illegible] Inc.		560 000 00
[illegible] Corporation		1 500 000 00
[illegible] LINE OF CREDIT		22 037 365 07

[illegible] from the above line of credit are those borrowings represented [illegible] and otherwise believed to be exempt from the provisions of [illegible] of the Revised Statutes.

[illegible] on the individual items included above see "Transamerica [illegible] subsidiaries Large Line" following on this page, under which heading [illegible] of each borrowing and its subsidiary relationship is fully explained.

Under the provisions of Section [illegible] of the Revised Statutes, extension [illegible] to Transamerica Corporation and its owned or controlled subsidiaries is [illegible] the [illegible] limitation of 10% of the bank's capital and surplus, amounting [illegible]. This limitation causes the above line to create an excessive [illegible] credit in the amount of $[illegible] 837 365 07.

In the Minutes of the Board of Directors there has been no specific [illegible] recorded for any of the above loans, or of any of the loan transactions [illegible] the large line of Transamerica Corporation and subsidiaries. All loans [illegible] of credit involved in the general line of the corporation and its [illegible] should be specifically approved by the Board of Directors, and the [illegible] advised of their individual responsibility for any loans sustained on ex- [illegible] other unlawful loans under Section 5239, U. S. R. S.

INSERT #1

Form 146
TREASURY DEPARTMENT
OFFICE OF THE COMPTROLLER OF THE CURRENCY

CONSOLIDATED REPORT

No. of Bank 13044

LARGE LINES

Name of Borrower and Guarantor	Sub-Total Of Line	Total of Line
TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE		
1. Transamerica Corporation - Inserts #3 to #17 incl.)		
Guaranteed Loans - Gty. of Transamerica Corporation	4,885,220.06 ✓	
Option to Purchase - covering 45,280 shares of National City Bank of New York Stock	2,173,440.00	
Loans Secured by Transamerica Corp. Stock (Active portions)	4,711,306.26	
Investment in stock of Transamerica Corporation	64,299.69	11,834,266.01
2. Bankamerica Company - (Insert #17)		
Direct secured Loan	832,100.00	
Discounts for collection	41,761.38	873,861.38 ✓
3. Bankamerica Agricultural Credit Corporation - (Insert #17)		
Direct unsecured loan	75,000.00	
Livestock loans discounted	4,491,876.44	4,566,876.44
4. California Lands, Inc. - (Inserts #18 to #20 incl.)		
Direct Loans - secured and unsecured	382,417.93 ✓	
Real Estate Loans discounted	194,865.70 ✓	
Real Estate Sales Contracts	11,658,436.09	12,235,719.72
5. Capital Company - (Inserts #20 to #24 incl.)		
Direct Real Estate Loan	175,000.00 ✓	
do	350,000.00 ✓	
do	225,000.00 ✓	
do	166,000.00 ✓	
Real Estate Sales Contracts	24,911,358.96	25,827,358.96
Suspense resources advance of $360,695.36 is not included on statements of the Cashier that it represents additions to banking premises and should be charged to improvements or expense after final completion of each job. In line with these statements it is suggested that the account be carried as a subsidiary expense item.		
6. Inter-Continental Corporation - (Insert #24) Direct secured loan		7,000,000.00 ✓
7. Pacific Coast Mortgage Company- (Insert #25) Direct secured loan		2,750,000.00
8. Transamerica Service Corporation - (Inserts #25 & #26) Direct secured loan		5,650,000.00 ✓
9. Western Furniture Exchange, Inc. - (Inserts #26 & #27) Real estate loan		560,000.00 ✓
10. Western States Corporation - (Insert #27) Direct secured loan		1,500,000.00 ✓
TOTAL OF TRANSAMERICA AND SUBSIDIARIES LARGE LINE. -		$ 72,798,082.51

✓

[TRANS]AMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - cont'd.

[GU]ARANTEED LOANS BOOK VALUE $4,665,220.06

Entire amount classified as II on Page-7 of this Report.

This transaction represents an extension of credit to Transamerica Corporation [ex]plained as follows:

The original entry in the general ledger account entitled "Guaranteed Loans" carried the following explanation: "To set up guaranteed liquidating value of approximately $55,000,000.00 in notes, judgments, claims, etc, purchased from Capital Company and California Lands, Inc. jointly and guaranteed as to liquidating value to the extent of $6,500,000.00 by Transamerica Corporation under agreement dated 7-14-37 and secured by pledge of collateral". Accordingly the amount was set up for an original amount of $6,500,000.00 and has since been reduced by collections and recoveries to the above amount as of the date of this examination 11-21-38.

The guarantee of Transamerica Corporation is supported by the following collateral:

Shares	Collateral	Percentage Owned By T.A.C.
66,560	Central Bank, Oakland, California	100
71	Bank of Amador County, Jackson, California	?
31	Bank of Davis, Davis, California	?
40	Bank of A. Levy & Co., Oxnard, California	?
10,000	Bankamerica Agricultural Credit Corporation	100
4,471	First National Bank of Portland, Oregon	57.49
26,300	National City Bank, New York City	10

The origin and history of this transaction are represented by various agreements, a brief outline of which are shown below:

1. On 2-1-33 Bank of America, N.T. & S.A. entered into an agreement with the Corporation of America, whereby the bank sold to the corporation all of the bank's charged off assets, including those to be charged off up to 7-1-33, for a consideration of $250,000.00. It will be noted that assets in an indeterminable amount or salvage value to be charged out during the ensuing five month period were sold under this contract. The records do not reveal that this major transaction was specifically approved by the Board of Directors.

This agreement was transferred by subsequent agreements dated 12-11-33 and 12-30-33 to Transamerica General Holding Company and then to Transamerica Bank Holding Company (later Inter-America Corporation), respectively. The consideration remained at $250,000.00 as in the original agreement.

2. On 1-2-34 through an additional agreement between Bank of America N.T. & S.A. and Transamerica Bank Holding Company (later Inter-America Corporation), the bank sold to the company all of the bank's charged off assets from 7-1-33 to 7-1-37 for a consideration of $50,000. It will be noted that assets in an indeterminable amount or salvage value to be charged off during the ensuing three and one-half year period were sold under this contract. The records do not reveal that this major transaction was specifically approved by the Board of Directors.

3. On 10-1-36 Inter-America Corporation (formerly Transamerica Bank Holding Company) by agreement, reciting the two contracts mentioned above, sold all of its interest in the bank's charged off assets to Capital Company and California Lands, Inc. who assumed payment of the contracts on the basis of an undivided one half interest for each company, for a consideration of $500,000.00 plus an additional $200,000.00 to be paid out of 20% of collections and recoveries on the charged off items. It will be noted that this agreement provided for a $200,000.00 profit to Inter-America Corporation over the original sale price of this group of charged off assets.

The records of the bank do not reveal that the considerations called for in contracts (1) and (2) above were ever credited to the undivided profit account of the bank as a recovery on the charged off assets sold, as would have been the case had the purchasing companies actually made payment. From the origin of these contracts to their termination on 7-14-37, as explained in (4) below, the bank handled all collections as agent for the companies owning the

cont'd.

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE

charged off assets, crediting the net amount of the recoveries over expenses to reduce the direct liability of Inter-America Corporation under its contracts with the bank. Between the dates of 10-1-36 and 7-14-37, in which period Capital Company and California Lands, Inc. were owners of these charged off assets, recoveries in the amount of [illegible] were effected by the bank as agent, and this amount was applied by the bank to reduce the direct secured and unclassified obligation of Inter-America Corporation. Instead of being used to reduce the long criticized and frozen real estate contract indebtedness to the bank of these two real estate holding companies. California Lands, Inc. and Capital Company showed the amount of these recoveries on their books as a credit to earned surplus - "recoveries on purchased charged off assets". No written evidence has been produced by the bank's management of the bank's authority, as agent, to divert the funds belonging to the two real estate holding companies to the benefit of Inter-America Corporation, nor is there record in the minutes that these transactions were approved specifically by the Board of Directors.

4. The charged off assets covered under (1) and (2) above were originally sold by the bank for $300,000.00, later they were acquired by Capital Company and California Lands, Inc. for the initial consideration of $300,000.00 plus $200,000.00 (to be realized out of recoveries) or a total cost of $500,000.00 as outlined in (3) above, Capital Company and California Lands, Inc. realized $1,486,185.67 from these acquired charged off assets during the period of their ownership, then on 7-14-37 the two land companies, by agreement, sold their interest in these same charged off assets back to Bank of America, N.T. & S.A. for a consideration of $6,500,000.00. The agreement contained the following description of the assets - "all notes, parts of notes, deficiency judgments, and other items which were charged off the books of Bank of America, N.T. & S.A. prior to 7-1-37 referred to as "Charged off assets" and which said charged off assets were transferred by an agreement dated 10-1-36 by Inter-America Corporation to the parties of the first part" (the parties of the first part being California Land, Inc. and Capital Company). The agreement dated 10-1-36 limited the charged off assets to those purchased from the bank under the original agreements dated 2-1-33 and 1-2-34 for a consideration of $250,000.00 and $50,000.00 respectively and did not include those assets sold under the so-called Inter-America Corporation contracts in 1931 and 1932 for $35,214.000(except as such assets may have been reacquired and charged off by the bank through its various write-down on those contracts as the result of the bank writing up its bonds in 1935 and 1936). The parties of the first part further warranted that they were the true and lawful owners with no claims against the assets. The bank made payments to the two companies respectively for this purchase of assets on a basis of $3,250,000.00 to each company for its undivided one-half interest in said assets. The two companies each credited this amount on their books to their earned surplus accounts as "recoveries on purchased charged off assets". The extent to which the charged off assets failed to qualify as legal investments for a national bank represents an illegal investment of bank funds and such action on the part of the management constitutes unsafe and unsound banking practices. Further, there is no record in the minutes that this transaction was specifically approved by the Board of Directors.

5. Inasmuch as Transamerica Corporation owned 100% of Capital Company and California Lands, Inc., on 7-14-37 it entered into an agreement with Bank of America, N.T. & S.A. to guarantee the bank against loss on the charged off assets repurchased, to the extent of $6,500,000.00.

Transamerica Corporation guarantees to the bank the sum of $6,500,000.00 within a five year period from the date of the agreement, on 7-14-37, and that said sum will be realized at a rate of not less than $1,300,000.00 per year and agrees to make up the deficiency in any one year by a cash payment, providing that if in any one year the collections on the assets exceed $1,300,000.00, the excess of collections shall apply to subsequent years payments.

Under the terms of this agreement Transamerica Corporation supports its guaranty with a pledge of collateral, shown above, which in the main represents permanent investments of Transamerica Corporation in subsidiaries, and, therefore, no substantial liquidation can reasonably be anticipated from this source. It also participates with Bank of America, N.T. & S.A. share and share alike, for a ten year period extending to 7-14-47, in all recoveries on the assets in excess of the purchase price thereof viz. - $6,500,000.00.

In event of the failure of Transamerica Corporation to pay the deficiency of any one year by cash payment, the bank has the right to sell without notice, sufficient of the securities pledged to make up the deficiency.

cont'd.

[TRAN]SAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

The proceeds of this repurchase by the bank of its previously charged off assets, amount-
ing to $6,500,000.00, were applied through inter-company channels, as follows:

(A) California Lands, Inc. paid a total of $657,645.03 on its real estate purchase
contract held by the bank, to apply against losses on specific properties sold by it to
Capital Company. This sale merely represented a transfer of properties held under one
contract to another contract held by the bank, for properties sold to Capital Company,
after the taking of write-down in the above amount through inter-company sales.

(B) California Lands, Inc. and Capital Company, instead of applying the remaining
proceeds from the sale of the charged off assets on their own frozen and severely crit-
icized real estate contracts with the bank, diverted these funds to Transamerica Corpor-
ation and it paid a total of $5,844,227.07 on the Inter-America Corporation contracts,
the payment of which it had assumed upon the dissolution of Inter-America Corporation
on 6-30-37. This payment by Transamerica Corporation left a balance due on those origi-
nal contracts amounting to $2,716,800.00. This balance of $2,716,800.00 was eliminated
by the transactions related under "Option to Purchase" details of which are commented
upon below.

The sale to the bank of assets by Transamerica Corporation through its 100% owned sub-
sidiaries Capital Company and California Lands, Inc., under which sale Transamerica Corporation
gave its guaranty for the full amount of the purchase price and the proceeds of which sale were
utilized directly by Transamerica Corporation and its subsidiaries to reduce their direct secur-
ed obligations to the bank (thereby obtaining the release of listed collateral formerly pledged)
constitutes an extension of credit to Transamerica Corporation within the meaning of Section
5200 USRS.

This unapproved repurchase by the bank of its previously charged off assets evidences
either the taking of a grossly inadequate consideration at the time of the original sale by the
bank or the payment of a wholly unreasonable price when these assets were repurchased and re-
presents to a large degree an illegal and unwarranted investment of bank funds. In addition
the transaction evidences undue favoritism to Transamerica Corporation and its subsidiaries in
that there were substituted for a valid and well-secured obligation of Transamerica Corpora-
tion a group of previously charged off non-bankable assets of questionable value and legality,
purporting to be secured by a long term guaranty of Transamerica Corporation. This further ex-
tended the time for payment of its original obligations and greatly weakened the asset condi-
tion of the bank. In the meantime the primary reduction of this assets is dependent upon re-
coveries under the illegal assets purchased. The bank acting as the collecting agent on the
charged off assets under the prior agreements covering their sale should have been able to apply
the proceeds of the repurchase (which it had provided in cash) to the reduction of the more
severely criticized real estate purchase contracts of Capital Company and California Lands, Inc.
had the bank's management seen fit to do so. This would have improved those assets and con-
tinued the Inter-America Corporation contracts which were well-secured obligations of a reputed-
ly solvent debtor, Transamerica Corporation.

This highly objectionable extension of credit has been reduced $1,614,779.94 since
origin on 7-14-37. Transamerica Corporation guarantees full liquidation at the rate of not
less than $1,300,000.00 annually or the bank is authorized to resort to the sale of supporting
collateral pledged to make up any deficit. The above reduction is comprised of many thousand so-
called recoveries reported by the Branches throughout the State without any detail as to the
nature thereof. In tracing a few of the reported recoveries through previous and present re-
ports of examination, the following are examples of the methods resorted to by the management to
reduce the liability of Transamerica Corporation at the expense of the bank:

(A) On 6-5-38 the real estate known as the Hellman Real Properties carried among
the charged off assets was illegally purchased by the bank and placed in its other
real estate account at $69,456.00 and this amount was credited as a recovery on the
"Guaranteed Loans". One parcel has since been sold for $300.00 and the carrying
amount has been reduced to $69,156.00.

(B) The Los Gatos Branch formerly carried a loan of $65,823.65 of the La Rinconada
Country Club secured by a first lien on an unprofitable golf course which was classi-
fied as Slow. The bank foreclosed the lien and upon obtaining title, sold the prop-
erty to California Lands, Inc., for $82,289.97 or a profit of $16,466.32. No down
payment was made on the purchase price and the full amount was added to the contract
liability of that corporation to the bank. This sale was made on 7-30-37 and on
8-30-37, the net capitalized principal profit on the sale of $14,307.10 was credited
on the "Guaranteed Loans" even though the records do not reveal that any portion of
the indebtedness had been previously charged off and that anyone other than the bank
was entitled to any recovery, or unrealized profit.

AMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

(C) During the examination of the Huntington Park Branch on 2-4-38 the Hercules Foundry, Inc., was indebted to the bank in the amount of $36,949.35. This indebtedness was secured in part by stock in Transamerica Corporation and was not classified at that time. During the examination of the same Branch on 8-24-38, this indebtedness had been increased to $105,000.00; was secured by a top-heavy lien on plant and equipment and the loan was classified as Slow. On 6-14-38, a recovery of $60,000.00 was reported on this transaction and applied toward the reduction of the "Guaranteed Loans".

(D) At the time of the examination of the First National Bank of Paso Robles for consolidation with the local Branch of the Bank of America in Paso Robles, the Mary Gantzer defaulted loan in the amount of $10,003.00 secured by real estate valued at $7,000.00 was listed for complete elimination as an illegal asset. On 5-5-37, the first examination of the Branch following the consolidation, this illegal asset, as well as many others listed for elimination was still present in the assets and again listed for elimination. Shortly following its elimination, the bank acquired title to the property on 10-6-37, sold it to Capital Company on 12-17-37 for $12,447.66, the full amount of which was added to the contract indebtedness of Capital Company and the bank reported a recovery on this sale of $9,944.27 which was credited as a payment on the "Guaranteed Loans". A few days later, the Administration Department charged off a loss of $5,447.66 on the sale price of this parcel to Capital Company but no portion of the endorsement made on the "Guaranteed Loans" was reversed. Being an illegal asset, the bank should have never come into possession of same and in addition, since the bank only realized $7,000.00 on this asset in the final analysis, the difference of $2,944.27 credited as a recovery on the "Guaranteed Loans" is equivalent to a donation of bank profit to reduce the obligation of Transamerica Corporation.

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued

OPTION TO PURCHASE BOOK VALUE $2,173,440.00

The Option to Purchase given by the bank to Transamerica Corporation covers 45,280 shares of National City Bank of New York with a market value of $1,041,440.00 on the examination date. The book value of these shares is further protected by an additional pledge of 18,400 shares of the same stock, showing a market value of $423,200.00. The combined market value of stock, supporting the book value investment of $2,173,440.00, amounts to $1,464,640.00. This leaves a market loss of $708,800.00 as shown in the bonds and securities on Page-12 of this Report.

Acquisition of this investment and the granting of the Option to Purchase arose out of the following transactions:

The balance of the Inter-America Corporation Contracts which corporation was liquidated through Transamerica Corporation on 6-30-37, amounting to $2,716,800.00 as shown above under Guaranteed Loans, was eliminated from the bank's books on July 14, 1937 through the illegal purchase by the Bank of America, N.T. & S.A. from Transamerica Corporation of 56,600 shares of stock of National City Bank of New York at a market price of $48.00 per share. The stock holding thus illegally acquired was set up on the bank's books at the purchase price of $2,716,800.00.

In connection with this illegal purchase the Bank of America, N.T. & S.A. granted an option to Transamerica Corporation to purchase the shares it had sold. In consideration of this option Transamerica Corporation pledged in safekeeping an additional 18,400 shares of the same stock. Under the terms of the option the corporation can purchase from the bank within a five year period the 56,600 shares of National City Bank stock at a price of $48.00 per share, in an amount not less than 11,320 shares per year. In the event 11,320 shares are not purchased in any one year, the bank may sell at Market any additional shares necessary to make up the dollar quota, provided that any excess purchases by the corporation in any one year shall apply to purchases of the succeeding year. If the sale of additional shares by the bank, at market, is less than $48.00 per share the bank may also sell sufficient shares out of the 18,400 shares, pledged in safekeeping, to make up the market value difference. When the bank has realized through payments under the option or through market sales the total amount of $2,716,800.00 the obligation of Transamerica Corporation shall cease, and all remaining shares shall be returned to the corporation. However, if there is a net deficiency after the sale of all shares held, the corporation shall in no wise be liable.

On 7-14-38, the first anniversary of the Option to Purchase Agreement, Transamerica Corporation elected to exercise its option and did repurchase 11,320 shares from the bank. Instead of the bank demanding payment of the option price of $543,360.00 in cash in order to eliminate at least that portion of an illegal investment, which could have been accomplished under the agreement by the sale of the 11,320 shares of stock at market or $288,660.00 and the sale of 10,000 shares of the 18,400 shares pledged in safekeeping as additional collateral for the deficit of $254,700.00, it accepted from Transamerica Corporation an illegal second deed of trust obligation of the Western Furniture Exchange Corporation which is approximately 71% owned by Capital Company which in turn is 100% owned by Transamerica Corporation through Transamerica General Corporation and released a liquid asset having a market value of $288,660.00 at that time.

This loan is shown in this Report under Other Loans Especially Mentioned. It is dated 12-13-37; is payable $20,000.00 each six months beginning June 13, 1938 and is secured by a second deed of trust on a Class "A" steel and concrete exhibit building at 10th & Market Streets, San Francisco. This second deed of trust is subject to a prior lien in favor of the Metropolitan Life Insurance Company in the amount of $1,000,000.00. The loan was originally made payable to Capital Company; was assigned to Transamerica Corporation and then reassigned to Bank of America, N.T. & S.A. The balance due at the time of its acceptance by the bank was $580,000.00 plus interest of $2,497.22 or a total of $582,497.22. Of this amount $543,360.00 was taken in consideration for 11,320 shares of stock referred to and the balance of $39,137.22 was applied on the delinquent payments due from Capital Company under the real estate sales contracts. The loan with a maturity in excess of fifteen years, secured by a second lien, represents an illegal investment under Section 24 of the Federal Reserve Act.

The purchase of the National City Bank stock constitutes an illegal investment of bank funds and a substitution of securities which the bank could not legally acquire for a binding and well-secured obligation of Transamerica Corporation. Under the circumstances through which the proceeds of the purchase were used to eliminate the direct secured obligation of Transamerica Corporation and the corporation in turn given an option to purchase the same shares (which option in effect is an unenforceable option to repurchase) it is felt that this bank investment should be included properly with the other obligations of the corporation and its subsidiaries. The bank's position that the Option to Purchase was given in order to protect it from any loss on these shares supports such a conclusion.

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE-Continued

GUARANTEED LOANS AND OPTION TO PURCHASE - Continued

HISTORY AND RECONCILEMENT OF INTER-AMERICA CORPORATION CONTRACTS

In order to reveal more clearly the nature of the assets eliminated under the original contracts and the manner in which they were liquidated, a chronological history of the transactions since origin is briefed under the caption of Inter-America Corporation Contracts, as follows:

INTER-AMERICA CORPORATION CONTRACTS

"A"	Contract dated 6-26-31 due 6-26-32 in the original amount of	15 000 000 00
"B"	Contract dated 12-31-31 due 12-31-32 in the original amount of	10 000 000 00
"C"	Contract dated 2-13-32 due 2-13-33 in the original amount of	10 214 000 00
	Total liability under the three contracts	35 214 000 00

The above contracts were originally entered into by the Bank of America National Trust & Savings Association as seller, and the Corporation of America, as buyer, of certain assets eliminated from the balance sheet of the bank. On October 2, 1933 the contracts were assumed by Transamerica Bank Holding Company (later Inter-America Corporation). By various agreements of extension the maturity of the contracts was extended to December 31, 1936.

ASSETS SOLD UNDER THE CONTRACTS

The nature of the assets sold under the contracts is best reflected by reference to the agreements. Contract "C", which summarizes the two previous contracts "A" and "B", defines the purpose of the contracts by stating that "in the examination of Bank of America by national bank examiners during the year 1931, approximately $35 000 000 00 face amount in the aggregate of assets of Bank of America have been classified as losses or doubtful, or as assets of such unsatisfactory character as to require their elimination from Bank of America's balance sheet".

The extent and nature of the assets scheduled for elimination can be gained from the subject of Contract "C" wherein "Bank of America agrees to sell, transfer and set over, and does hereby sell, transfer and set over to the Corporation, and the Corporation agrees to purchase and does hereby purchase from Bank of America all those certain notes, portions of notes, obligations, claims, demands, causes of action, equities, future appreciation in bonds and other written-down accounts and recoveries on losses and other assets, together with all mortgages, deeds of trust, collateral or other security securing the same, and all the right, title and interest of the Bank of America therein and thereto, as set forth and listed in Schedule "A" hereto annexed and made a part hereof, the principal amount of which items set forth in schedule "A" (exclusive of security securing the same), totals the sum of Ten Million Two Hundred Fourteen Thousand Dollars ($10 214 000 00). The agreed purchase price of said items is Ten Million Two Hundred Fourteen Thousand Dollars ($10 214 000 00) payable in the manner and at the time hereinafter set forth, and with interest thereon in the amount hereinafter specified. The Corporation also agrees to assume, and does hereby assume, all obligations and liability in respect to the losses and depreciation specified in said Schedule "A" and hereby agrees to pay Bank of America the amount of such losses and depreciation as part of the purchase price hereunder, subject to the terms hereof".

SCHEDULE "A"

Losses on loans in offices in the following districts:		
District #1		2 259 619 49
District #2		173 645 28
District #3		494 269 19
District #4		380 645 64
District #5		50 469 38
District #6		65 190 34
District #7		2 477 675 40
		5 902 314 92
Losses and depreciation on securities:		
Losses	121 015 68	
Depreciation	4 190 669 40	4 311 685 08
TOTAL		$10 214 000 00

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued

GUARANTEED LOANS AND OPTION TO PURCHASE - Continued

CONTENT AND RECONCILEMENT OF INTER-AMERICA CORPORATION CONTRACTS- Continued

Contracts "A" and "B" are substantially the same as Contract "C" and are for the total amounts as shown above.

COLLATERAL PLEDGED TO SECURE SAID CONTRACTS

Under Contract "C" the following reference is made to the collateral security for the Three Contracts:

"In order to secure the performance by the Corporation of its obligations under this agreement of purchase and sale and under the agreements dated June 26, 1931 and December 31, 1931, respectively, between the Corporation and Bank of America, the Corporation does hereby assign, transfer and deposit with Bank of America, in pledge,

"(a) all those certain shares of stock and other securities particularly designated and described in Schedule "B" hereto annexed and made a part hereof;

"(b) all those items particularly designated and described in Schedule "A", to the extent that the same shall not from time to time be collected and applied to payment of the obligations of the Corporation hereunder as herein provided; and

"(c) all securities and other collateral now pledged as security for performance by the Corporation of the contract dated June 26, 1931 between Bank of America and the Corporation.

With reference to the collateral pledged under Contract "A" and "B" the wording of Contract "C" fully shows the following items:

" The criticised assets so purchased under said contracts dated June 26, 1931 (Contract "A") and December 31, 1931 (Contract "B") were pledged with the Bank of America to secure the purchase price under said respective contracts, and, in addition, there was pledged under said contract dated June 26, 1931, (Contract "A") the following collateral:

150 000 shares	- The National City Bank of New York (originally 250 000 shares - The Bank of America N A New York).
250 000 shares	- Bancamerica-Blair Corporation
2 500 shares	- First National Bank of Portland
13 120 shares	- The First National Corporation of Portland "B"
10 000 shares	- Bankamerica Agricultural Credit Corporation
62 652 shares	- General Metals Corporation.

In addition to the foregoing, Contract "C" is secured by the pledge of securities listed under Schedule "B" which are as follows:

SCHEDULE "B"

10 000 shares	- Bankitaly Mortgage Company
158 420 shares	- Bank of America - State Bank
9 155 shares	- California Joint Stock Land Bank
5 000 shares	- California Mortgage Insurance Company
953 132 shares	- Banca d' America e d'Italia
1 903 213 shares	- Ameritalia Corporation
341.2 shrs	- Bank of Lake, Lakeport, California
440 shares	- First National Bank of Grass Valley, California
1 846 shares	- Northern California Bank of Savings, Marysville, California
1 965 shares	- Oakland Bank, Oakland, California
410 shares	- Placerville National Bank, Placerville, California
940 shares	- Vallejo Commercial National Bank Vallejo, California
71 shares	- Bank of Amador County, Jackson, California
31 shares	- Bank of Davis, Davis, California
40 shares	- Bank of A Levy & Co., Oxnard, California
25 shares	- Ferndale Bank, Ferndale, California
503 shares	- West Side State Bank, Los Angeles, California
5 000 shares	- Capital Company
85 731 shares	- California Lands, Inc.

The following reconcilement of the original contracts and the subsequent reduction thereon reflects both the nature of the assets sold by the Bank to the Corporation and the methods and means of reductions:

INSERT #9

No. of Bank 13044

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued

GUARANTEED LOANS AND OPTION TO PURCHASE - Continued

HISTORY AND RECONCILEMENT OF INTER-AMERICA CORPORATION CONTRACTS - Continued

NATURE OF ASSETS SOLD	ORIGINAL AMOUNT UNDER THE CONTRACTS
Notes receivable and Interest Accrued	20 177 136 41
Real Estate Losses	130 301 91
Depreciation on Bank Premises	2 456 000 00
U S Dollar Bond Losses	1 563 314 62
Foreign Currency Bond Losses	63 000 30
Loss on Real Estate Foreclosures	590 149 37
Losses on Loans	5 902 314 92
Depreciation on Securities	4 190 669 40
Losses on Securities	121 015 68
TOTAL INCLUDED UNDER THE THREE CONTRACTS OF SALE	35 213 902 61

MANNER IN WHICH REDUCTIONS WERE EFFECTED	SUB-TOTAL	PAYMENTS MADE
Recoveries on Loans held at Administration and at branches		
Period from the date of the contracts to 5-31-34	1 944 397 54	
Period from 6-1-34 to 12-31-35	3 783 117 61	
Period from 1-1-36 to 10- 1-36	1 139 404 25	6 866 919 40
A substantial portion of the recovery is represented by the write up of collateral securing the loans, primarily Transamerica Corporation stock, which had been carried as low as $2 50 per share and during 1935 was written up to approximately $12 00 per share, with subsequent write-up in some cases to as high as $16 00 per share.		
Payments made by Capital Co. and California Lands, Inc. under contracts assigned to them on 10-1-36.		
10-1-36 to 12-31-36	744 890 92	
1-1-37 to 3-31-37	342 693 95	
4-1-37 to 7-14-37	398 600 80	1 486 185 67
Recoveries on miscellaneous assets		
Losses recovered on real estate foreclosures	8 073 46	
Profits on the sale of various securities 1932 through 1934	131 561 39	
Revaluation of stock collateral on 6-26-34	119 647 03	
12-27-34 Purchase of stock at pledgees sale and applied on loan of R W Bell	17 545 00	276 826 90
Cash Payments made due to collateral changes		
Cash adjustments made in the exchange of shares of the Bank of America N A (New York) for shares of the National City Bank of New York	100 000 00	
12-23-33 application of capital due stockholders in the takeover of the First National Bank of Grass Valley, California	47 636 10	
1-25-34 settlement in connection with the take-over of the Vallejo Commercial National Bank Vallejo, California	96 751 45	
1-25-35 reduction of the Capital of the Bank of America (State Bank) due to the takeover of over 60 branches by the Bank of America National Trust & Savings Association	5 200 000 00	5 444 3[illegible]

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued.

GUARANTEED LOANS AND OPTION TO PURCHASE - Continued

HISTORY AND RECONCILEMENT OF INTER-AMERICA CORPORATION CONTRACTS- Continued

MANNER IN WHICH REDUCTIONS WERE EFFECTED - Continued

Reductions made through the write-up of the Bank's assets and forgiveness of the debt due under the contracts		
Write-up of U S Securities as of March 21, 1935	5 000 000 00	
Write-up of Municipal Securities as of 12-24-35	3 000 000 00	
Write-up of U S Securities as of October 13,1936	4 000 000 00	
Write-up of Municipal Securities as of 10-13-36	2 007 788 34	
	14 007 788 34	
10-21-35 Write up of loans purchased		
Application of excess amount of reserves withheld account of loans purchased from the Pacific Coast Mortgage Co. at a discount	70 707 68	
5-11-33 Charged off by the Bank		
Application of funds transferred from "Reserve for Contingencies Special" account reimbursement for this amount of depreciation on Bank Premises included in item of $2 456 000 00 in the contract dated December 31, 1931	500 000 00	14 578 496 02
Purchase of 56 600 shares National City Bank of New York by the Bank which is now carried in bond account		2 716 800 00
Payment of Transamerica Corporation for balance of contracts 7-14-37 See "Guaranteed Loans" now being carried by bank.		5 644 287 07
BALANCE OF THE INTER-AMERICA CORPORATION CONTRACTS		0

SUMMARY:

Over the life of the Contracts covering approximately a six and one-half year period, the following liquidation was accomplished by collections and recoveries on charged off items and cash payments due to reduction in collateral pledged:

Recoveries on and write-up of Loans	6 866 919 40
Recoveries on Other Assets	276 826 90
Payments by Capital Co. and California Lands, Inc (Representing recoveries and collections)	1 486 185 67
Sub-total of Recoveries and write ups upon the actual charged off assets sold under the contracts	8 629 931 97
Cash payments due to changes in other collateral pledged	3 444 387 55
Sub-total of Liquidation received from the charged off assets and other collateral pledged	12 074 319 52
PLUS: Bond write-up actually realized through the subsequent sale of the bonds written up representing conversion of bank profits	7 712 655 48
Charge off by the Bank of a portion of the depreciation sold - a capital adjustment	500 000 00
Total of combined liquidation, write-ups realized and conversion of bank profits to date of final elimination of contracts 4-14-37	20 286 975 00

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

ASSETS IN WHICH REDUCTIONS WERE EFFECTED - continued.

The balance of the liquidation of the contracts is represented by asset changes which at the time remained in the active assets of the bank in one form or another:

Total of Bond write-up	14 007 788 34	
Less: Amount actually realized	7 712 655 48	
Balance of Bond write-up remaining on books		6 295 132 86
Write-up of loans purchased at a discount		70 707 68
Sub-total of asset write-up and capital adjustments		6 365 840 54
Application of the proceeds of the repurchase of the bank's charged off assets from Capital Co. and California Lands, Inc. which were set up on the bank's books at $6,500,000.00.		5 844 287 07
Purchase of 56,600 shares of National City Bank of New York, applied to eliminate the balance of the contracts		2 716 800 00
Total liquidation through asset changes		14 926 927 61
TOTAL OF CONTRACTS ELIMINATED		35 213 902 61

At this examination there is $2,672,848.49 in write-up remaining on Municipal bonds, which amount is partially offset by amortization reserve of $482,746.64 leaving a net write-up in the assets of $2,190,101.85. The balance of the write-up shown above is reported to have been realized through the actual sale of the bonds written up and the resulting profit or loss adjusted to the bank's undivided profits account.

The repurchased charged off assets, now known as Guaranteed Loans, are carried at $[illegible],485,200.06 and are classified as slow in this Report of examination. These assets are guaranteed against loss by Transamerica Corporation under an agreement that provided for a five year period for their elimination from the bank's assets.

The purchased 56,600 shares of stock in the National City Bank of New York has been reduced to 45,280 shares and is carried at $2,173,440.00 in the bank's bond account. The present status of this investment is shown above under Option to Purchase and in the bond account on Page-12.

* * * *

CONCLUSIONS RELATIVE TO GUARANTEED LOANS AND THE OPTION TO PURCHASE

In summarizing the successive chain of transactions from the date of their origin in 1931 and 1932 when the so-called Inter-America Corporation Contracts aggregating $35,213,902.00 were entered into the present, the following salient features are outstanding:

In the Reports of examination made in 1931 and 1932, assets totaling approximately $[illegible],000,000.00 were classified as either loss, doubtful or otherwise unbankable. In order to rehabilitate the capital structure, the shareholders were faced with the necessity of making cash contributions to the bank for this purpose. Transamerica Corporation owned 99.65% of the stock of the stock of the bank at this time and was, therefore, the shareholder to which the bank had to look for assistance. The corporation shareholder being unable to raise this amount of cash during this crucial period arranged for wholly owned subsidiaries to purchase $35,213,902.00 of the losses and otherwise unbankable assets from the bank under three separate contracts hereinbefore described that were dated 6-26-31; 12-31-31 and 2-[illegible]-32, now known as the Inter-America Corporation Contracts.

CONCLUSIONS RELATIVE TO GUARANTEED LOANS AND THE OPTION TO PURCHASE - continued.

the balance of the losses were charged against the undivided profit account of the bank. The purchasing subsidiaries immediately set up 100% reserves against these contract liabilities.

These contracts by their terms were clearly agreements of outright purchase and sale and in no way merely contracts of guarantee as now contended by the management. Furthermore, they have lost their identity as a BPC transaction for the reason that the original purchasing subsidiary resold the assets to other subsidiaries and they in turn to others. No evidence has been produced to indicate that the bank was permitted to capitalize $37,213,502.00 of estimated losses and unbankable assets by the substitution of the three original contracts with the understanding that the purchasing subsidiaries would not be expected to pay them and that they would be eliminated from the assets by the future earnings of the bank and by filtering the unbankable assets once removed by sale back into the active assets of the bank. To the contrary, Transamerica Corporation was required to pledge certain listed and unlisted securities of its own to guarantee the repayment of the contract purchase price. Ever since their existence these contracts have been represented to the public and the supervising authorities as legal binding obligations of Transamerica Corporation or its subsidiaries as well as solvent secured assets of the bank in all published reports of condition.

Each of the original contracts provided for payment of the balance of the purchase price at the expiration of one year from date of the respective contracts with interest at the rate of 6% per annum on unpaid balances, the interest to start accruing at a specified future date. From time to time the dates for performance of the contracts and the consequent accrual of interest thereon were extended instead of collecting the obligations at their respective maturities by resort, if necessary, to the collateral pledged as security. Transamerica Corporation or its subsidiaries benefited by these various renewals to the extent the bank was deprived of the interest income contemplated by the original contracts and the extensions also removed the contract obligations from the category of "statutory bad debts" thereby making possible the payment of large and wholly unwarranted dividends to Transamerica Corporation. Finally, Transamerica Corporation and its subsidiaries were enabled to avoid the actual payment of the major portion of the binding obligations created by the contracts.

The management maintains that its major accomplishment since 1932 has been the complete elimination of the so-called Inter-America Corporation Contracts. In reviewing the methods employed in this alleged elimination it is clearly evident that the management has resorted to illegal, unsafe and unsound practices and has unduly favored Transamerica Corporation and its subsidiaries at the expense of the bank. Some of the methods employed, not one of which was formally approved by the Board of Directors are as follows:

First: From time to time certain charged off portions of notes sold under the various contracts were reinstated as active assets of the bank and applied toward the reduction of the balance due under the contracts. The procedure followed was to write up the active portion of loans on the banks books as rapidly as the supporting collateral appreciated in value and the unrealized recoveries thus obtained were applied toward the reduction of the contract obligations. This was done under the instructions of the management and was based solely upon the favorable market price of the collateral, without regard to the financial worth of the borrowers or the future stability of the market. The writing up of these loans, secured to a large degree by stock in Transamerica Corporation, solely on the strength of unrealized appreciation in value as a result of an increase in the market price of the collateral securing them, is wholly speculative and inconsistent with well established sound banking principles. The exact extent to which such loans were written up is not known but it is estimated that it would involve several million dollars.

As an example, the George H. Boskowitz loan in the amount of $66,000.00 is carried in the California-Montgomery Branch of San Francisco. This loan is secured by stock in Transamerica Corporation, and the amount of $30,000.00 was charged off and sold to the Inter-America Corporation under one of the early contracts. This loan was subsequently written up $12,000.00 on 12-7-35, and an additional $9,000.00 on 10-30-36, or a total of $21,000.00 and this amount was credited upon the Inter-America Corporation contract indebtedness. Subsequently, the amounts of $10,720.00 and $9,528.00, or a total of $20,248.00, was charged off against the undivided profit account of the bank on 3-25-38 and 10-31-38 respectively, but the former credits to the [illegible] were not reversed. The net result of this transaction is that the asset [illegible] of the bank was weakened to the extent of the write-up, and the subsequent charge-off [illegible] represents a [illegible] of bank earnings toward the elimination of the obligations of Transamerica Corporation or its subsidiaries. The charged off assets in this [illegible] during the year 1935, were written up as follows:

10-2-35	....	$78,[illegible]	[illegible]
10-4-35	....	15,[illegible]	[illegible]
12-7-35	....	128,750.[illegible]	[illegible]

CONCLUSIONS RELATIVE TO GUARANTEED LOANS AND THE OPTION TO PURCHASE - continued.

The foregoing amounts were applied toward the reduction of the contracts and, in the major portion of instances, losses have been subsequently estimated on the loans that were written up. The extent to which the charged off assets have been written up represents a weakening of the asset position of the bank, and the extent to which the written up assets have been subsequently charged off represents a diversion of bank profits toward the reduction of obligations of Transamerica Corporation and its subsidiaries.

Second: On three different occasions in 1935 and 1936, certain government and municipal bonds were written up to the extent of approximately $14,000,000.00, and this amount was credited to the undivided profit account of the bank. On the same dates on which these transactions occurred, the bank purchased a like amount of losses, and other illegal assets, from Inter-America Corporation and credited the purchase price on the Inter-America Corporation contracts, and then immediately charged off the assets purchased against the undivided profit account of the bank. The writing up of appreciation in securities, without giving adequate consideration to depreciation and losses in other assets carried by the bank, is not in accord with sound banking principles, and the extent to which the unrelated securities were written up represents a weakening of the asset position of the bank and a diversion of bank profits toward the elimination of obligations of Transamerica Corporation or its subsidiaries.

The various write-ups were criticised in every report of examination since the respective periods in which they occurred, and a loss of $2,190,101.85 is being estimated in this report, which represents the remaining portion of the unliquidated write-up, less the amount of the reserve for premium amortization applicable to the write-up.

Third: On 2-1-33 and 2-2-34 the bank entered into contracts with wholly owned subsidiaries of Transamerica Corporation, whereby the bank sold all of its charged off assets, including those to be charged off up to July 1937 (or a period of three and one-half years in advance) for a total consideration of $500,000.00. The records of the bank do not reveal that the $500,000.00 was ever credited to the undivided profit account of the bank as a recovery on charged off assets sold, as would have been the case had the purchasing companies actually made payment. The amount of recoveries realized from this group of charged off assets and applied toward the reduction of Inter-America Corporation contracts is not known, but on 10-1-36, these two groups of charged-off assets were sold by Inter-America Corporation to Capital Company and California Lands, Inc. on the basis of an undivided one-half interest for each company, for a consideration of $500,000.00, plus an additional $200,000.00 to be paid out of 20% of collections and recoveries on the charged off items. Both Capital Company and California Lands, Inc. were heavily indebted to the bank by virtue of their frozen real estate contracts, and, during the period they were the owners of these two groups of charged off assets, recoveries in the amount of $1,466,185.67 were applied by the bank, as agent for the companies, toward the reduction of a fully secured and unclassified direct liability of Inter-America Corporation, instead of their own frozen real estate contract indebtedness.

On 7-14-37 the remaining balance due on the original Inter-America Corporation contracts was $8,561,067.07, which was fully secured by listed and unlisted collateral pledged by Transamerica Corporation, the market value of the listed collateral alone being far in excess of the balance due on the contracts; and, therefore, was not classified at the time of the preceding examination on 4-20-37. Instead of the bank requiring cash payment of the balance due by the exercise of its right to resort to the sale of the listed collateral pledged, if necessary, the bank illegally repurchased from the Capital Company and California Lands, Inc., the residual charged off assets for a consideration of $6,500,000.00 under a so-called guaranty by Transamerica Corporation that the bank would obtain the amount of the purchase price over a five year period at the rate of not less than $1,300,000.00 annually, and the bank released virtually all of the listed and a major portion of unlisted collateral pledged by Transamerica Corporation. In addition, the contract provided that Transamerica Corporation would share equally with the bank in all recoveries over and above $6,500,000.00, for a ten year period extending to the year 1947. Of the purchase price paid by the bank, $5,844,357.00 was made avilable to Transamerica Corporation through a series of intercompany book entries, and was eventually credited upon the well secured and unclassified obligation of Transamerica Corporation on the Inter-America Corporation contracts instead of the frozen real estate contracts carried by the bank of Capital Company and California Lands, Inc., who were legally entitled to the proceeds of the sale.

CONSOLIDATED REPORT

No. of Bank 13044

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

CONCLUSIONS RELATIVE TO GUARANTEED LOANS AND THE OPTION TO PURCHASE - continued.

In the repurchase of these two groups of charged off assets (originally sold for $300,000.) for the sum of $6,500,000.00, after at least $1,466,185.67 of recoveries had been realized thereon, there is evidence of either the taking of inadequate consideration at the time of the original sale, or the payment of a wholly unreasonable price when the assets were repurchased, as well as being an illegal and unwarranted investment of bank funds. In addition, this transaction evidences undue favoritism to Transamerica Corporation and its subsidiaries in that there was substituted for a valid and well secured obligation of Transamerica Corporation, a group of previously charged off assets of highly questionable value, purporting to be secured by a long term guaranty of Transamerica Corporation, thus further extending the time for payment of its original obligation for an additional five year period. Since it appears that the bank did not even receive the $300,000.00 for which the charged off assets were sold, it should have retained the charged off assets and applied all of the recoveries, both past, as well as future, toward the elimination of the remaining losses in the bank and the strengthening of the inadequate capital structure, rather than to be made the subject of direct or indirect gifts to Transamerica Corporation and its allied interests.

As heretofore shown, the guaranty of Transamerica Corporation is secured by a pledge of securities of which the only marketable and listed item is 28,300 shares of stock of National City Bank of New York, valued currently at $657,900.75, the balance is represented by permanent investments of Transamerica Corporation in its allied interests, and therefore no substantial reduction on "Guaranteed Loans" can be expected from that source, unless under the provisions of the guaranty the bank acquires such allied interest and effects reduction through substitution of assets.

Attention is also directed to the methods being resorted to by the management in an endeavor to liquidate the guaranteed obligation of Transamerica Corporation hereinbefore set forth, which includes the acquisition of illegal assets, capitalization of unrealized profits, and the diversion of bank funds, thereby further weakening the asset position of the bank for the benefit of Transamerica Corporation.

Fourth: The remaining portion of the obligation of Transamerica Corporation under the Inter-America Corporation contracts was eliminated by the sale of 56,600 shares of National City Bank of New York stock by Transamerica Corporation to the bank, for a consideration of $2,716,800.00, which sum was applied to complete the full payment of the Inter-America Corporation contract obligations. As a part of this transaction, the bank gave to Transamerica Corporation an "Option to Purchase" the National City Bank stock at the rate of 11,320 shares per year, over a five year period, for the price at which the securities were purchased by the bank.

Among the objectionable features of this transaction are:

a. Instead of the bank requiring Transamerica Corporation to liquidate sufficient of the listed collateral pledged to secure its indebtedness to the bank in order to retire the same for cash, the bank illegally purchased the stock under a five year arrangement, whereby Transamerica Corporation, rather than the bank, would enjoy the benefits of any increase in the market price, and the bank would have to suffer any resultant loss.

b. The additional 18,400 shares of National City Bank stock pledged by Transamerica Corporation to protect the bank against loss is wholly inadequate, and a market loss of $708,600.00 is being estimated in this report of examination.

c. Instead of the bank requiring Transamerica Corporation to exercise its option on its first anniversary for cash or resorting to the sale of sufficient of the stock to attain this end, the bank accepted an illegal second real estate mortgage in the original amount of $560,000.00 with a maturity in excess of fifteen and one-half years, and surrendered 11,300 shares of the National City Bank stock, which had a market value of $288,660.00 at that time.

The purchase of the National City Bank stock constituted an illegal investment of bank funds and a substitution of securities which the bank could not legally acquire for a binding and well secured obligation of Transamerica Corporation. The acquisition of the second real estate mortgage is also an illegal transaction.

Both the "Guaranteed Loans" and "Option to Purchase" were illegally acquired by the bank and the management has resorted to the acquisition of illegal assets, the diversion of bank profits and other unsafe and unsound practices in its efforts to unduly favor Transamerica Corporation or its subsidiaries or its allied interests without due regard to the soundness of the bank. These practices should not only cease but immediate steps should be taken to remove both of these illegal assets in their entirety for cash rather than by further changing the obligor or form of obligation or by further substitution of unsatisfactory or illegal assets. This is necessary in the interest of sound banking.

LOANS SECURED BY STOCK OF TRANSAMERICA CORPORATION BOOK VALUE $4,711,306.26

These loans are numerous and widely spread throughout the Branch system and are classified in the various Branch Reports of examination. The amount as shown represents, in the aggregate, the extensions of credit dependent upon the stock of Transamerica Corporation. In most cases they are loans made in prior years and are workout problems or are carried in an attempt by the bank's management to effect a recovery on partially charged off assets through market appreciation in the value of Transamerica Corporation stock. The following is a comparative study of the total amount of loans of this type:

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINES – Continued

COMPARATIVE SCHEDULE

LOANS SECURED BY STOCK OF TRANSAMERICA CORPORATION

DATE	"A"	SHARES PLEDGED	"B"	SHARES PLEDGED	"C"
12-31-29	40 064 358 69	1 697 165	17 057 610 19*	453 650	No record kept
6-10-30	26 683 141 24	1 500 318	12 496 757 42*	361 680	No record kept
2-28-31	20 941 703 76	1 609 120	30 412 252 16*	622 536	No record kept
8-31-31	15 104 423 35	1 609 553	10 271 027 96	663 937	141 161
3-31-32	11 010 253 77	1 418 385	9 524 571 37	616 025	115 041
11-3-32	9 594 093 07	1 389 460	7 916 201 29	658 342	218 552
4-10-33	8 831 763 24	1 386 502	8 155 215 68	808 806	252 949
9-18-33	7 418 552 89	1 197 656	6 936 943 43	760 793	192 610
6-2-34	5 110 770 65	997 685	4 634 967 39**	701 936	234 849
2-11-35	3 984 154 79	804 396	4 489 748 47**	664 794	257 161
10-7-35	3 840 856 30	776 195	3 950 531 21**	542 068	181 830
4-27-36	5 828 887 81#	972 383#	3 575 540 49**	429 300	264 437
10-14-36	6 026 140 94	936 663#	2 798 243 26**	330 449	232 559
4-20-37	5 684 086 31	869 984	3 203 483 49**	350 105	195 925
8-31-37	1 370 361 05	156 852	4 786 941 33***	530 976	***
4-28-38	564 803 17	101 013½	4 252 420 82***	522 373	***
11-21-38	674 261 49	110 600	4 037 044 77***	501 525	***

"A" Loans secured by T A C stock only.

"B" Loans secured by T A C stock and other collateral. Dollar amount represents balance dependent upon T A C stock.

"C" Shares of T A C stock held as collateral, upon which no portion of loan is dependent.

(*) Indicates total loans which are secured by T A C and other collateral, and not the balance of the loan dependent upon T A C for liquidation as indicated above.

(**) Basis for figuring the dependency on the loan upon T A C changed to the proportion: That the value of the T A C stock has to the total value of all the collateral securing each loan, instead of, as formerly used, figuring the uncovered balance of the loan as dependent upon T A C stock.

(***) Now includes proportionate amount dependent upon T A C stock regardless of collateral position with respect to other securities. "C" classification omitted.

\# It is significant that, contrary to announced policy in regard to loans made against Transamerica Corporation stock both the number of shares and the dollar amount increased during 1936 when the stock market experienced accelerated activity and decided value enhancement.

NOTE: Unusual decrease in number of shares held as of 8-31-37 results from Transamerica Corporation changing its capital stock from a no par basis to a $2 00 par value, and issuing one share of the new stock for every two shares of the old, when a distribution of 56% of Bank of America National Trust & Savings Association stock was made to shareholders of the Corporation.

COMPARATIVE SCHEDULE

LOANS SECURED BY STOCK OF
BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

DATE	LOAN	SHARES	DEPENDENCY
8-31-37	16 272 985 93	100 807	No record kept
4-28-38	11 691 682 40	94 378.5	3 305 862 43
11-21-38	18 963 427 20	88 092.1	3 171 200 93

Bank stock and new Transamerica stock were substituted for old shares of Transamerica Corporation. At the time of transfer all pledged shares were exchanged. On that basis such stock pledged presently is deemed to be for debts previously contracted. The totals shown include Bank of America National Trust & Savings Association stock pledged since in violation of Section 5201 U S R S as shown on Page ~~6~~. 5

— Presently, Transamerica Corporation has requested an expression of interest by shareholders in a proposed further exchange of its stock with that of the bank.

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued

INVESTMENT IN STOCK OF TRANSAMERICA CORPORATION BOOK VALUE 64 299 69

This investment represents stock acquired D P C and carried in the bank's bond account. The bank holds 6 366 1/2 shares which were acquired at an original cost of $79 961 38 and a loss of $15 661 69 has been charged off, reducing the book value to $64 299 69. The present market value of these shares is $60 481 75, leaving a market loss of $3 817 94 shown in bonds and securities on Page #12 of this report.

BANKAMERICA COMPANY				
	DIRECT LOANS	BOOK VALUE	832 100 00	3%
	DISCOUNTS	BOOK VALUE	41 761 38	
	TOTAL	BOOK VALUE	873 861 38	

Bankamerica Company was formerly 100% owned directly by Transamerica Corporation. During 1937 Transamerica Corporation sold Bankamerica Company to Transamerica General Corporation (100% owned subsidiary of Transamerica Corporation). In December, 1937, Transamerica General Corporation sold Bankamerica to Western States Corporation, a newly formed Nevada Corporation, in which Capital Company (a 100% owned subsidiary of Transamerica General Corporation) showed a $5 000 000 00 investment in 10 000 shares of Class "B" non-voting stock, representing the entire Class "B" stock outstanding. The capital structure of Western States Corporation is represented as follows:

10 000 shares "A" voting stock par value $5 00	50 000 00
10 000 shares "B" non-voting stock par value $250.	2 500 000 00
Paid-in surplus	2 700 000 00
TOTAL CAPITAL STRUCTURE	$ 5 250 000 00

The Class "A" voting stock of Western States Corporation is reported to be held by interests outside of Transamerica Corporation.

The direct loan to Bankamerica Company of $832 100 00 is secured by listed and unlisted collateral with an appraised and estimated value of $1 313 730 67. This loan is carried at California Montgomery Branch and is unclassified in that report of examination.

The discount line of Bankamerica Company of $41 761 38 represents documentary transit items with securities attached which have been discounted at the California-Montgomery Branch and are unclassified in that report of examination.

BANKAMERICA AGRICULTURAL CREDIT CORPORATION				
	DIRECT LOAN	BOOK VALUE	75 000 00	4%
	DISCOUNTS	BOOK VALUE	4 491 876 44	2%
	TOTAL		4 566 876 44	

Bankamerica Agricultural Credit is 100% owned by Transamerica General Corporation which in turn is 100% owned by Transamerica Corporation. The entire capital stock of Bankamerica Agricultural Credit Corporation is pledged behind Transamerica Corporation's guaranty securing the "Guaranteed Loans" commented upon above.

Unsecured direct loan of $75 000 00 is carried at the San Francisco Main Office and is unclassified in that report of examination.

The discounts represent an indirect liability of the corporation for livestock loans discounted at the San Francisco Main Office, and this line of credit is unclassified in that report of examination. These loans are stated to be accepted by the bank upon the same basis as the corporation would discount them at the Federal Intermediate Credit Bank. In some cases, however, it would appear that the individual loans are heavy on the basis of security pledged.

[illegible]MERICA CORPORATION AND SUBSIDIARIES LARGE LINE-Continued

[illegible]FORNIA LANDS, INC

DIRECT LOAN	382 417 93
DISCOUNTS	194 865 70
REAL ESTATE SALES CONTRACT	11 658 436 09
TOTAL	12 235 719 72

California Lands, Inc. is 100% owned by Transamerica General Corporation which in turn is 100% owned by Transamerica Corporation.

California Lands, Inc. direct loan is carried at Clay Montgomery Branch and is unclassified in that report of examination. Included in this line is a $300 000 00 loan for current farm operations of the company, upon which it is estimated that liquidation will be completed by the end of this year. The balance of the line is secured by a real estate deed of trust covering 40 acres of oil land in Santa Barbara County under which the Union Oil Company remits all monies for oil. This latter loan has been reduced from $100 000 00 to the present balance of $82 417 93.

California Lands, Inc. discounts are carried at Administration Department, San Francisco and are classified in this report $170 554 80 II. This line represents an extension by the purchase of endorsed notes taken by the company in payment for properties sold out of its own account. The bank holds 12-discounted notes of which eight are heavy non-conforming loans totaling $170 554 80, which is the basis of the II classification. Several of the loans held are badly delinquent as to principal and interest, and it would appear that the bank will have to look to California Lands, Inc. for their payment.

Real Estate Sales Contracts

The real estate sales contract is carried at the Administration Department and is classified $11 658 436 09 II in this report of examination, Page 7.

This contract is specifically secured by various parcels of farm properties, acquired by the bank under foreclosure. These parcels are sold to California Lands, Inc. under a contract providing for payment, over a ten year period, at the price for which they are carried under the contract. The contract, also, provides for continued sales by the bank to the company for any additional farm properties acquired by the bank under foreclosure. The present contract was drawn on April 4, 1934, cancelling and consolidating all prior contracts, for an original amount of $12 950 455 13. The following reconcilement of this contract shows the total transactions from April 4, 1934 to November 21, 1936:

Amount of the present contract on April 4, 1934	12 950 455 13
Total sales to California Lands, Inc. from April 4, 1934 to 11-21-36	8 341 726 97
Total sales by bank to the company	21 292 182 10
Less: Payments by California Lands, Inc. for properties sold, etc. from 4-4-34 to 11-21-36	9 633 746 01 (*)
Balance due under the contract 11-21-36	11 658 436 09

(*) Included in the payments by California Lands, Inc. is $177 969 64 which the bank took as a charge off 11-7-35 for parcels sold to the company during the year 1935.

Also, included is a payment of $657 645 03 arising from the repurchase by the bank of its previously charged off assets from California Lands, Inc. and Capital Company referred to under Guaranteed Loans, above. Of this total amount $336 383 35 was applied to take losses on properties sold to Capital Company under contract, and $321 261 66 was applied as a part payment to reduce the carrying value of properties retained under the contract.

Further included in the payments by California Lands, Inc. is the sale of certain properties to Capital Company for $650 000 00. This transaction represents a transfer of the properties from one contract on the bank's books to another contract on the bank's books, with the only change effected being the $336 383 35 loss taken as shown above.

Deducting these three items from the total credits as shown leaves a net total of $7 946 135 34 in payments resulting from sales of properties to outside purchasers and deficiency payments on those sales by California Lands, Inc.

CONSOLIDATED REPORT

No. of Bank 13044

[illegible]TICA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued

[illegible]A LANDS, INC. - Continued

An analysis of the properties remaining under the contract showing the years of a[illegible]tion by the bank is presented in order to show the length of time the bank has carried the [illegible]ments either as Other Real Estate Owned or under the contract:

PERIOD OF ACQUISITION BY THE BANK	NUMBER OF PROPERTIES	%	PRESENT BOOK VALUE UNDER THE CONTRACT	%
1929 and prior	97	11.96	925 336 97	7.93
1930	87	10.73	1 267 101 10	10.87
1931	84	10.36	1 251 414 70	10.73
1932	126	15.53	1 812 690 12	15.55
1933	106	13.07	1 787 508 30	15.33
Sub-total of properties carried five years or more	500	61.65	7 044 251 19	60 41
1934	70	8.63	1 078 874 77	9.25
1935	85	10.48	1 128 732 46	9.68
1936	66	8.14	754 158 28	6.47
1937	74	9.12	1 544 217 79	13.25
1938	16	1.97	108 201 60	.93
Sub-total of properties carried less than five years	311	38.34	4 614 184 90	39.58
Total Properties under contract	811	100.	11 658 436 09	100.

Properties under the contract having a carrying value of $25 000 00 or over:

[illegible] RANGE	# PROPERTIES	%	TOTAL CARRYING VALUE	%
[illegible] to $50 000.	64	7.89	2 175 953 86	18.66
[illegible] and over	41	5.06	3 960 857 11	33.97
[illegible]	105	12.95	6 136 810 97	52.63
[illegible] ALL PROPERTIES	811	100.	11 658 436 09	100

The contract carries the following provision: "The Seller agrees that the Buyer shall ha[illegible] right to make sales or trades, with the right of substitution, of all or any of the parcels [illegible] property subject to this agreement of Purchase and Sale and to accept as portion of the pur[illegible]rice in any such sale the note of the intended purchaser secured by mortgage or deed of [illegible] the property sold, or otherwise properly secured. The Seller agrees to accept from the Buyer [illegible] value the note and collateral securing the same secured by the Buyer on a portion of the [illegible] price on any sale, said note to be assigned to the Seller without recourse to the Buyer. [illegible]r agrees to pay the Seller in cash difference between the face value of such note and the [illegible] price herein of the property sold, and the aggregate of such cash and the face value of such [illegible]ll constitute payment in full of the purchase price herein of the property sold, and the Seller [illegible] the request of the Buyer convey to the purchaser to whom the Buyer has sold the property, the [illegible] sold."

In the event that the total of such cash and notes provided for above do not aggregate the [illegible]y ten per cent of the face amount of the contract for each year beginning on 12-31-35, then the [illegible]t make up the difference in cash and the Seller will convey title to the Buyer for the properties [illegible] for in full. Under the past performance on this contract California Lands, Inc. has been able [illegible] the ten per cent necessary for full requirements as to payments, through sales to outside pur[illegible]. This performance does not provide for payments on each individual parcel at 10% per annum but [illegible] the balance due on the total contract. Therefore, sales to outside purchasers of properties [illegible] subsequent to 4-4-34 have been included in meeting required payments for any one year.

TRANSAMERICA CORPORATION AND SUBSIDIARIES- LARGE LINE - Continued

CALIFORNIA LANDS, INC - Continued

The total payments as shown above, do not reflect full asset correction, for in many cases the bank has accepted heavy real estate loans taken in payment for the sales and placed them in various branches where they are presently subject to criticism. The properties remaining under the contract are carried there without any down payment by California Lands, Inc., under the existing contract. In cases where the properties may have been included under the prior contracts with National Realty Company and with California Lands, Inc. prior to 1932, there may have been a down payment based upon the original cost at foreclosure. However, the figures above show the extent to which the bank through the easy terms of this contract is permitted to carry real estate on its books for long periods without any down payment.

CAPITAL COMPANY

(a) DIRECT LOAN - BOOK VALUE	175 000 00
(b) DIRECT LOAN - BOOK VALUE	350 000 00
(c) DIRECT LOAN - BOOK VALUE	225 000 00
(d) DIRECT LOAN - BOOK VALUE	166 000 00
(e) REAL ESTATE SALES CONTRACT	24 911 358 96
TOTAL	25 827 358 96

The direct loans (a), (b) and (c) are carried at the Administration Department and are unclassified in this report of examination. They represent direct real estate loans to the company which the bank acquired without recourse from the Pacific Coast Mortgage Company. These loans cover improved city properties in San Francisco and Glendale, California. All three of the loans matured on 6-1-34 and are now carried past due under waivers of the statute of limitations obtained by the bank on May 27, 1938.

The direct loan (d) is carried at San Francisco Main Office and is unclassified in that report of examination. This loan is a real estate loan secured by improved property in San Francisco, which is included under a contract of sale for real estate between the bank and Capital Company and is carried therein for the equity value over and above this lien.

Real Estate Sales Contracts

The real estate sales contracts are carried at the Administration Department and are classified $24 911 358 96 II in this report, Page #7.

The real estate sales contracts are specifically secured by various parcels of city property acquired by the bank under foreclosure. The properties have been sold to Capital Company under seven different contracts, beginning April 4, 1934, providing for payment, over a ten year period, at the price for which they are carried under the contracts. The contract dated 3-27-35 provides for continued sales by the bank to the company of any additional city properties acquired by the bank under foreclosure. The contract dated 4-4-34 consolidated all prior contracts with the company and was in an original amount of $15 591 773 59. The following reconcilement of the contracts is shown to reflect the total transaction from 4-4-34 to 11-21-38:

CONTRACT DATE	ORIGINAL AMOUNT	ADDITIONS TO	PAYMENTS ON	BALANCE DUE
4-4-34	15 591 773 59	910 293 88	8 540 354 83	7 961 712 64
[illegible]-26-34	3 500 000 00	91 432 77	2 459 529 42	1 131 903 35
10-16-34	2 000 000 00	376 367 69	1 455 065 08	921 302 61
12-14-34	2 500 000 00	51 384 10	1 307 259 94	1 244 124 16
1-9-35	2 000 019 47	44 222 61	1 281 901 76	762 340 42
3-27-35	3 000 000 00	18 936 442 92 (2-4)	11 439 925 71	10 496 517 21
12-31-36	678 739 66 (1)	3 577 106 54 (3)	1 862 387 63	2 393 458 57
TOTAL	29 270 532 72	23 987 250 61	28 346 424 37	24 911 358 96

Original amount of contracts on 4-4-34	15 591 773 59
Plus: Subsequent sales by bank to Capital Co. from 4-4-34 to 11-21-38	37 666 009 74 (4)
Total sales to Capital Co. under above contracts	53 257 783 33
Less: Payments made by Capital Co. for properties sold, etc from 4-4-34 to 11-21-38	28 346 424 37 (5)
Net balance due on all contracts	24 911 358 96

No. of Bank 13044

[illegible]EDA CORPORATION AND SUBSIDIARIES LARGE LINE - Continued

[illegible]COMPANY - Continued

[illegible]te Sales Contracts - Continued

(1) Original contract amount represents the net sale figure after bank charged off a loss of $1 014 709 59.

(2) Sales figure represents net book value under the contract after bank took losses on foreclosed real estate loans covering the properties under this contract, amounting to $2 968 399 61.

(3) Sales figures are net to Capital Company after the bank charged off losses of $965 441 70 on certain properties and wrote up $858 966 79 on certain other properties, a net loss of $106 474 91. Included in the write up of $858 966 79 on certain properties was $425 000 00 in capitalized expenses to be paid by the bank in developing the properties for sale. This total of $425 000 00 of capitalized expenses has been charged off by the bank through its expense account.

(4) Included in the sales to Capital Company is the $850 000 00 in real estate sold by California Lands, Inc., effected by a transfer of the amount and the properties between the contracts of the two companies. A loss of $336 363 35 was taken by California Lands, Inc. in the transaction which was a part of the settlement involving the origin of "Guaranteed Loans", fully commented upon above.

(5) Included in this item is $1 715 882 27 charged off by the bank on properties sold to the company during the year 1935.

An analysis of the properties remaining under the contract showing the years of [illegible]uisition by the bank is presented to show the length of time the bank has carried the investments [illegible] as Other Real Estate Owned or under the contracts:

PERIOD OF ACQUISITION BY THE BANK	NUMBER OF PROPERTIES	%	PRESENT BOOK VALUE UNDER THE CONTRACTS	%
1929 and prior	34	3.00	264 023 93	1.06
1930	29	2.56	479 687 21	1.93
1931	59	5.26	1 541 045 86	6.17
1932	174	15.40	4 824 579 16	19.36
1933	225	19.93	5 228 162 78	20.99
Sub-total of properties carried five years or more	521	46 15	12 337 498 94	49.51
1934	180	15.94	4 007 199 99	16.08
1935	193	17.10	2 217 407 85	8.90
1936	113	10.00	3 864 220 97	15.51
1937	94	8.33	1 043 244 00	4 19
1938	28	2.48	1 441 787 21	5.79
Sub-total of properties carried less than five years	608	53.85	12 573 860 02	50.47
Total properties under contracts	1 129	100.	24 911 358 96	100.

Properties under the contracts having a carrying value on the bank's books of [illegible] 000 00:

Boo[illegible] Range	# properties	%	TOTAL CARRYING VALUE	%
[illegible], and over	42	3.72	8 998 729 77	36.12
[illegible] to $100 000.	60	5.31	4 145 689 53	16.64
[illegible] to $ 50 000.	140	12.40	4 913 559 76	19.72
TOT[illegible]	242	21.43	18 057 979 06	72 46
TOT[illegible] ALL PROPERTIES	1 129	100%	24 911 358 96	100%

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

CAPITAL COMPANY - continued.

Real Estate Sales Contracts - continued.

The contracts carry the following provision: "The Seller agrees that the Buyer shall have the right to make sales or trades, with the right of substitution, of all or any of the parcels of real property subject this agreement of Purchase and Sale and to accept as a portion of the purchase price in any such sale the note of the intended purchaser secured by mortgage or deed of trust on the property sold, or otherwise properly secured. The Seller agrees to accept from the Buyer at face value the note and collateral securing the same secured by the Buyer on a portion of the purchase price on any sale, said note to be assigned to the Seller without recourse to the Buyer. The Buyer agrees to pay the Seller in cash the difference between the face value of such note and the purchase price herein of the property sold, and the aggregate of such cash and the face value of such note shall constitute payment in full of the purchase price herein of the property sold, and the Seller shall at the request of the Buyer convey to the purchaser to whom the Buyer has sold the property, the property sold".

In the event that the total of such notes and cash provided for above do not aggregate the necessary ten per cent of the face amount of each contract for each year beginning 3-31-36, then the Buyer must make up the difference in cash and the Seller will convey title to the Buyer for the properties so paid for in full. Under past performances on these contracts Capital Company has been able to sell the ten per cent necessary to fulfill requirements as to payments through sales to outside purchasers. This performance does not provide for payments on each individual parcel at 10% per annum but only upon the balance due on the total of each contract. Therefore sales to outside purchasers, removing the properties from under the contracts if sufficient in amount meet the requirements. The total payments as shown above, do not reflect full asset correction for in many cases the bank has accepted heavy real estate loans taken in payment for the sales and placed them in various Branches where they are presently subject to criticism. The properties remaining under the contracts are carried there without any down payment by Capital Company, under the existing contracts. In cases where the properties may have been included under prior contracts with National Bankitaly Company and with Capital Company prior to 1932, there may have been a down payment based upon the original cost at foreclosure. However, the figures above show the extent to which the bank through the easy terms of these contracts is permitted to carry real estate on its books for long periods of time without any down payment.

CONCLUSIONS IN CONNECTION WITH THE CAPITAL COMPANY &
CALIFORNIA LANDS, INC. REAL ESTATE SALES CONTRACTS

The bank's methods of handling Other Real Estate Owned and other information in connection with these assets is treated in fuller detail under the caption of Other Real Estate Owned on Inserts 76 to 83 - Page-14 of this Report. For the purpose of clarifying the nature and growth of the real estate sales contracts between the bank and Capital Company and California Lands, Inc. certain pertinent facts are summarized:

1. At the time of the conversion of the Bank of Italy into the national system in 1927, the bank disposed of its Other Real Estate under agreements of sale with National Bankitaly Company (100% owned by shareholders of Bank of Italy N.T. & S. A.). These agreements covered separate parcels of real estate acquired under foreclosure and provided for a cash down payment of 25% of the book value of the real estate sold and equal installments payable over a period of five years. The company assumed the payment of taxes and paid 6% interest on the unpaid balance due under each contract. These contracts remained in vogue until the beginning of 1931.

2. In 1931 the contracts with National Bankitaly Company were cancelled and new contracts entered into between the bank and Capital Company (for city real estate) and California Lands, Inc. (for farm properties). At that time Capital Company and California Lands, Inc. were 100% owned by Realty Holding Company of America, which in turn was 100% owned by Corporation of America (100% owned by shareholders of Bank of America, N.T. & S.A.). The contracts with the two companies provided for cash down payments of 10% of the book value of the property sold with the balance payable within five years (no installments were stipulated), interest was reduced from 6% to 1%, and the bank assumed the payment of taxes on the contract properties. Contracts were drawn for each separate sale to the companies. Under these contracts Capital Company and California Lands, Inc. purchased real estate, acquired by the bank under foreclosure, at the cost to the bank regardless of its actual value. This unusual arrangement enabled the bank to capitalize its foreclosure losses together with accrued interest and expenses by including them under these five year real estate contracts. During 1932 the cash down payment of 10% required by the contracts was waived by the bank, and contracts drawn after that time required no down payment with the balance payable within five years.

TRANSAMERICA CORPORATION [illegible] - continued.

[illegible]IONS IN CONNECTION WITH THE CAPITAL COMPANY & CALIFORNIA LANDS, INC.
REAL ESTATE SALES CONTRACTS - continued.

3. On April 4, 1934 the contracts now in existence were entered into between the bank
and Capital Company and California Lands, Inc. These contracts cancelled all previous con-
tracts with the companies and properties were taken over under the new contracts for the
balances then due under the former contracts. The terms of the present contracts were further
liberalized. Under these contracts all parcels were included (there were no longer separate
contracts for individual parcels) in the face amount of the obligations, no down payment was
required, 10% of the face amount due on the contracts was payable within approximately two
years from the original date and the remaining balance payable in ten annual installments.
The bank retains title to the real estate until it is sold by Capital Company or California
Lands, Inc. to a third party. Interest is payable at 4% per annum on the balance due and
the bank pays all real estate taxes on the contract properties. The bank agrees to accept
at face value, cash, notes, sales contracts, or trades received by the companies, in payment
of real estate sold by them. The cost of rehabilitation or improvement of the properties
under the contracts is added to the unpaid balance due on the contracts.

All real estate covered by these contracts is carried by the bank on its books as "Real
Estate Sales Contracts", and shown in all published reports of condition as "Loans and Discounts".
The amount of real estate covered by these contracts was increased from 29% of the bank's book
capital structure of $97,419,546.00 as of 6-22-34, the date of the first examination of the bank
subsequent to the origin of the present contracts, to 31% of the bank's book capital structure of
$112,591,135.00 as of 11-21-36. In 1935, the basis of determining the sale price of such properties
to the companies was changed so as to eliminate accrued interest and foreclosure costs, and the
properties thereafter were sold by the bank to the companies at appraised value or bid in price,
whichever is the smaller. During this same year the bank charged off a total of $1,893,847.91 on
these contracts representing the recognized loss in the real estate sold to the companies prior to
the change in policy in order that the bank could take credit for that amount for income tax purposes
during that year. The amount received by the bank in the case of sale by the companies of real
estate covered by these contracts is credited on the total amount due to the bank, with the result
that some property can be carried indefinitely by the companies and the liability to the bank for
the sale price of such properties can be carried indefinitely in the Loans and Discounts.

The extent to which this is true, is set forth in the two foregoing analyses. In the
case of the Capital Company, a total of 1,129 properties are carried under contracts totalling
$24,911,358.96. Of this number 521 properties representing $12,337,498.94 of the contract princi-
pal have been carried by the bank for a longer period than five years. This represents 46.15% of
the total amount of property under contract, and 49.51% of the total amount of the contracts.
In the case of California Lands, Inc., a total of 811 properties are carried under contracts totall-
ing $11,656,436.09. Of this number 500 properties representing $7,044,251.19 of the contract
principal have been carried by the bank for a longer period than five years. This represents 61.65%
of the total amount of properties under contract, and 60.41% of the total amount of the contracts.

The National Banking Law provides that no national bank shall hold possession of any real
estate except as shall be necessary for its accommodation in the transaction of its business, for a
longer period than five years and the terms and conditions of the original contracts for the sale
of bank's "Other Real Estate" to National Bankitaly Company were consonant with the policy of this
law. It is evident, therefore, that the management constantly revised and relaxed the terms and
conditions of the contracts so that the bank could hold its real estate for longer periods than
the law permits, in its Loans and Discounts, and for the further purpose of enabling the bank to
hold its real estate without showing it in its published report of condition as "Other Real Estate
Owned". It is further evident that, as a result of the revised terms and conditions of the con-
tracts, the bank is also enabled to carry parcels of real estate which are either unsaleable or
can only be sold at a substantial loss, for an unlimited period of years through the device of
crediting the proceeds of the sale of a given parcel as a payment on the balance of the total con-
tracts, instead of treating each transaction as an individual item.

Under the present contracts this real estate was sold to the wholly owned subsidiaries
of Transamerica Corporation and no initial or down payment was required, only 10% per annum of face
amount of the contracts was to be paid from and after approximately two years from the date of the
contracts on April 4, 1934 and 10% per annum on all subsequent acquisitions and additions from the
date of the first required payment. The annual 10% payments have no relationship to the individual
properties sold under the contracts, but relate only to the aggregate purchase price of all prop-
erties sold under each contract to the corporations individually. The real estate was originally
sold to these corporations for the bank's carrying value, regardless of the actual value of the
properties sold. The bank voluntarily charged off $1,893,847.91 during 1935 on these contracts,
representing the losses capitalized thereunder during the year 1935. Title to the properties remain
with the bank or its nominees and does not pass with the execution of the contracts. The bank pays
all real estate taxes on the properties sold. The bank permits these corporation to maintain and

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

CONCLUSIONS IN CONNECTION WITH THE CAPITAL COMPANY & CALIFORNIA LANDS, INC. REAL ESTATE SALES CONTRACTS - continued.

improve the properties held under the contracts, such expenditures being borne by the bank and capitalized by adding them to the balance due under the contracts. The interest was reduced from 6% in former years to 1% under the present contracts. The corporations are permitted by the bank to retain all income from the properties, less necessary insurance coverage costs. For these reasons it is evident that the terms and conditions are such that this contractual arrangement is interpretated to constitute a mere agency agreement and not a bona fide sale as contended by the management with the result that the real estate underlying these contracts is actually "Other Real Estate Owned" and should be shown as such on the books of the bank and correctly reported as to its true nature in all published reports of condition, and that the aggregate amount of real estate which has been carried by the bank under these contracts for a period in excess of the statutory five year period is carried in violation of law.

INTER-CONTINENTAL CORPORATION BOOK VALUE $7,000,000.00

Inter-Continental Corporation is 100% by Transamerica General Corporation, which in turn is 100% owned by Transamerica Corporation. Inter-Continental Corporation is engaged exclusively in the purchase and sale of securities on margin and otherwise for its own account, and in holding securities in portfolio for a profitable income return. In order to obtain the highest return on its investments the Corporation both buys and sells securities, but such purchases and sales are made only for its own account.

This line is a direct loan carried at the Administration Department, San Francisco and is set up under Other Loans Especially Mentioned in this report of examination. The loan is secured by the following collateral:

	1,423 Shares	Commerce Trust Company, Kansas City, Mo.
*	120,000 "	National City Bank of New York.
*	12,000 "	Fireman's Fund Insurance Company
	3,559 "	First National Bank of Portland
*	134,084 "	General Metals Corporation
*	4,000 "	Anglo California National Bank, San Francisco, Calif.
	40,000 "	Pacific National Fire Insurance Company.

(*) Items so marked represent listed collateral.

The market value of listed collateral securing this line is $5,050,156.00, leaving the balance dependent upon unlisted collateral, the largest item of which is 40,000 shares of Pacific National Fire Insurance Company. This company is 100% owned by Transamerica General Corporation and the shares pledged above represent 80% of the company's outstanding capital stock borrowed by Inter-Continental Corporation to pledged for loans. The shares of First National Bank of Portland pledged represent a portion of Transamerica Corporation's investment in that controlled and affiliated bank and is collateral borrowed by Inter-Continental Corporation. The shares of General Metals Corporation pledged represents 50.7% of the outstanding capital stock and is owned by the borrowing corporation. The shares of The National City Bank of New York and the shares of Fireman's Fund Insurance Company also, are borrowed from Transamerica Corporation or its subsidiaries.

The bank holds signed statements to the effect that the above borrowing is not for the purpose of purchasing or carrying securities registered upon the national securities exchange. However, because of the stated purpose of the corporation and the nature of its business it is believed that the bank has violated the provisions of Regulation "U" in extending this line of credit with only a required 20% margin of collateral. The bank's management disclaim any knowledge of the purpose of the loan other than it is for general corporate use, and unless it is an accommodation loan for Transamerica Corporation, which may be supported by the extent to which Inter-Continental Corporation has borrowed collateral from Transamerica Corporation and its subsidiaries, the activities of the borrower would appear to restrict the loan to the provisions of Regulation "U". In addition to the above loan Inter-Continental Corporation also borrows from other banks upon its portfolio securities and maintains active accounts with brokers.

Form 1400
CURRENCY DEPARTMENT
[illegible]

No. of Bank 14044

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

PACIFIC COAST MORTGAGE COMPANY — BOOK VALUE $[illegible],750,000.00

This corporation is a former affiliate and is closely allied and friendly to Transamerica Corporation's interests. Its shareholders are largely officers, directors and employees of Bank of America National Trust & Savings Association and shareholders in Transamerica Corporation. This loan has been previously shown under the Large Line of A. C. Stewart, who is President and a Director. It is included under Transamerica Corporation's large line because the purpose of the loan would appear to permit the investment in and carrying of investments in which Transamerica Corporation owns either control or a substantial interest, and it would also appear that a large portion of the company's assets pledged herein as collateral were acquired directly from Transamerica Corporation or its subsidiaries. This is indicated by the collateral pledged which is shown as follows:

*	26,200	Shares	Bancamerica-Blair Corporation
**	3,083	"	National Bank of Washington, Tacoma, Washington
**	14,500	"	First National Bank of Arizona, Phoenix, Arizona
**	14,500	"	Phoenix Savings Bank & Trust Company, Phoenix, Arizona
#	39,684 2/3	"	American Medical Life Ass'n. Pfd. Common
#	50,000	"	American Medical Life Ass'n. Founders Common
*	14,950	"	General Metals Corporation
**	1,065	"	First National Bank of Portland, Oregon
***	4,000	"	Commerce Trust Company, Kansas City, Mo.
***	15,000	"	National City Bank of New York
##	56,824	"	Filtrol Company of California

* Indicates stocks of corporation in which Transamerica Corporation owns control. Market value $262,500.00.

** Indicates stocks of so-called Transamerica Corporation banks, in which the corporation either owns control or has substantial interest, directly or indirectly. Estimated value $1,132,840.00.

*** Indicates stocks in which Transamerica Corporation shows a substantial investment on its books, directly or indirectly. Market and Estimated Value $918,750.00.

\# Represents the liquidation of assets in an insurance company taken over by Occidental Life Insurance Company (100% owned by Transamerica General Corporation). The bulk of the assets held for liquidation are reported to be holdings in shares of Transamerica Corporation. Est. Value $601,206.00.

\#\# Indicates an investment purchased from Inter-Continental Corporation (100% owned subsidiary of Transamerica General Corporation) and represents in excess of a 25% interest in the company. This stock has an over the counter market with an estimated value of $441,160.00.

Total value of listed collateral is $1,161,000.00 leaving the balance of the loan dependent upon the estimated value of the closely held securities pledged. The line would appear to be a liberal line of credit in view of the type of collateral pledged and because of the fact that the bank does not hold or refuses to disclose supporting credit data relative to the borrower or the purpose of the borrowing. Inasmuch as the collateral pledged consists entirely of stocks formerly owned by Transamerica Corporation or its subsidiaries, and stocks in a company whose principal asset is stock of Transamerica Corporation it would appear that for practical purposes that the affiliation still existed.

TRANSAMERICA SERVICE CORPORATION — BOOK VALUE $5,850,000.00

Transamerica Service Corporation is 100% owned directly by Transamerica Corporation. Originally it was a holding company for real estate owning subsidiaries of Transamerica Corporation. It was incorporated in 1930 as National Commercial Properties, Ltd., later became Transamerica Realty Holding Company and then Realty Holding Company of America. In December, 1931 the present name was adopted. At present it acts as cash disbursing agent and handles accounting functions for Transamerica Corporation and its subsidiaries.

This loan is for the direct accommodation of Transamerica Corporation and its subsidiaries to enable the carrying of permanent investments and further expansion and is set up under Other Loans Especially Mentioned in this Report of examination. The loan is secured by the following collateral representing largely permanent investments of Transamerica Corporation and its subsidiaries borrowed by Transamerica Service Corporation to secure this borrowing from the bank.

TRANSAMERICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued.

TRANSAMERICA SERVICE CORPORATION - continued.

*	6,988 Shares	General Foods Corporation
*	55,000 "	National City Bank of New York
*	11,949 "	Union Oil Company of California
*	2,000 "	Commerce Trust Company, Kansas City, Mo.
*	2,000 "	Hale Bros. Stores
	3,012 "	National Bank of Washington, Tacoma, Washington
	10,000 "	Occidental Life Insurance Company
*	7,399 "	Fireman's Fund Insurance Company
	10,000 "	Pacific National Fire Insurance Company
	13,220 "	Central Bank, Oakland, California

* Indicates listed collateral with a market value of $2,696,161.00.

The major portion of this line is dependent upon unlisted collateral, which, in all cases under this particular loan, is represented by stock of corporations and a bank in which Transamerica Corporation owns a 100% interest or at least controls directly or indirectly.

WESTERN FURNITURE EXCHANGE, INC. BOOK VALUE $560,000.00

The Western Furniture Exchange, Inc. is 71.43% owned by Capital Company, which is 100% owned by Transamerica Corporation through its 100% owned subsidiary holding company, Transamerica General Corporation. Capital Company acquired its stock investment in consideration for a deed to Western Furniture Exchange of land formerly on its books as the Hooper Property, located at 10th & Market Streets, San Francisco, at $771,378.40 and a cash contribution of $30,000.00, in accordance with the agreement. Capital Company also advanced a portion of the funds for the erection of a building upon the land, taking a note secured by a second trust deed for $520,000.00, the approximate excess amount of the cost of the building and equipment over the amount of the first trust deed of $1,000,000.00 placed thereon by the Western Furniture Exchange and held by Metropolitan Life Insurance Company.

Capital Company's original investment in the land was acquired several years ago, when in conjunction with Wm. Fox each acquired an undivided one-half interest in numerous parcels of real estate located in the vicinity of 9th and Market Streets, 10th and Market Streets and on Market Street between Larkin and Polk Streets. Wm. Fox financed his acquisitions largely through loans obtained from Bank of America, N.T. & S.A. (formerly Bank of Italy, N.T. & S.A.), giving as security a deed of trust for his acquired interest. In an endeavor to develop these properties the Fox Theatre was erected by Capital Company in connection with Fox West Coast Company in 1929, at a cost of approximately $2,000,000.00 - on the property located on Market Street between Larkin and Polk Streets.

During 1936 Bank of America N.T. & S.A. foreclosed on the Wm. Fox deed of trust and acquired his various undivided one-half interests in the real estate formerly held by him, covering five parcels of property in the district above indicated. These properties were acquired by the bank at total cost of $508,886.74 upon which it took a charged off loss of $63,886.74, leaving a net book value for the real estate equity of $445,000.00. The real estate was then sold by the bank to Capital Company under the Real Estate Sales Contracts for this latter amount. On 10-23-36 Capital Company, under the provisions of its real estate sales contract with the bank traded a parcel of real estate in Los Angeles known as the Apartment Garage to the bank and substituted that property for the bank's original undivided one-half interest in one of the five parcels acquired above known as Parcel #5, for the book value of the investment amounting to $177,250.00. This resulted in the bank obtaining a substituted property under its real estate sales contract for its equity in one of the parcels acquired under the Wm. Fox foreclosure. There was no reduction in the book value of the real estate sales contract between the bank and Capital Company, because all of the original undivided one-half interests and the traded parcel of Los Angeles property remain under the contract at full value. This transaction resulted in Capital Company obtaining full title to the so-called Parcel #5 upon which the Western Furniture Exchange Building was erected. Capital Company, after obtaining full title to the land, deeded the real estate to Western Furniture Exchange, as outlined above and received in exchange the holding in capital stock of the corporation which it carries on its books as an investment in stocks of affiliates.

[illegible]ICA CORPORATION AND SUBSIDIARIES LARGE LINE - continued

[illegible] FURNITURE EXCHANGE, INC. - continued

The organization and promotion of Western Furniture Exchange was effected primarily to work out [illegible] respective interests of Capital Company and the bank, which have been detailed above. This [illegible]ent in addition to utilizing the specific property upon which the Western Furniture Exchange [illegible]ilt, also tends to further the development of the upper Market Street property in which Capital [illegible] to a major degree and the bank to a lesser degree have a substantial interest. These interests [illegible]quired for real estate speculation, the management long having considered the poorly developed [illegible] of upper Market Street as potentially valuable ground for the future growth of San Francisco. [illegible] investments have been carried unprofitably for a number of years in the hope that normal development [illegible]ld occur, through which Capital Company and the bank could realize improvement on their con[illegible] joint investments which has not materialized.

Up to this point, the asset position of the bank has not been improved since no reduction [illegible] obtained on the real estate contracts of Capital Company as heretofore set forth. Rather, the contrary is true for the reason that by acquiring the Western Furniture Exchange illegal second real estate mortgage in the present amount of $560,000.00 from Capital Company through Transamerica Corporation, the bank's original investment in this real estate transaction has been increased in an equivalent amount. While the Western Furniture Exchange building may stimulate activity in this district, any future enhancement in the value of contiguous real estate will accrue primarily to the benefit of Transamerica Corporation through its wholly owned subsidiary, Capital Company, by reason of its larger holdings therein but in the meantime the bank has increased its financial investment in the success of the venture.

This loan is dated 12-13-37, it was in the original amount of $620,000.00, is paybie $20,000. semi-annually beginning 6-13-38, is made payable to Capital Company, was assigned to Transamerica Corporation and then reassigned to the Bank of America N.T.& S.A. The balance due at the time of acquisition by the bank was $580,000.00, plus interest of $2,497.22, or a total of $582,497.22. Of this total amount $543,360.00 was taken in payment for 11,320 shares of stock in National City Bank of New York, which had been illegally acquired by the bank from Transamerica Corporation under the "Option to Purchase" in the settlement of the Inter-America Corporation Contracts (details of which transactions are hereinbefore set forth), and the balance of $39,137.22 was applied by the bank on the delinquent payments due from Capital Company under the real estate contracts, for properties sold to outside purchasers (not on the specific properties acquired under the Wm.Fox foreclosure). This loan has a maturity in excess of fifteen years, is secured by a second lien on real estate and represents an illegal investment under Section 24 of the Federal Reserve Act. The loan was acquired by the bank to partially eliminate from its assets an illegal investment in stock. Therefore, for the reasons and circumstances stated above arrangements should be made for its immediate removal from the assets of the bank by cash payment and not through further switching or substitution of assets with Transamerica Corporation.

[illegible] STATES CORPORATION — BOOK VALUE $1,500,000.00

The Western States Corporation is a Nevada corporation with extremely broad powers the primary purpose of taking over the Bankamerica Company, a securities dealing affiliate of Transamerica Corporation and a former affiliate of the bank. It later took over the stock holdings of Transamerica Corporation in Bancamerica-Blair Corporation which has since been sold to the Pacific Coast Mortgage Company. The capital structure of this corporation is represented as follows:

10,000 Shares	"A" voting stock par value $5.00	$ 50,000.00
10,000 "	"B" non-voting stock par value $250.00	2,500,000.00
Paid in Surplus		2,700,000.00
	TOTAL CAPITAL STRUCTURE	$5,250,000.00

This direct loan is shown in this Report under Other Loans Especially Mentioned and is [illegible] by the following collateral:

*	51,429 Shares	Puget Sound Pulp and Paper 6% Pfd.	
**	5,405 "	First National Bank of Arizona, Phoenix, Arizona	
**	5,405 "	Phoenix Savings Bank & Trust Company, Phoenix, Arizona	
**	5,790 "	First National Bank of Portland, Oregon	

* Indicates 51,429 shares out of 125,000 shares outstanding, in which Bankamerica Company (100% owned by Western States Corporation) participated in the underwriting to the extent of 53,334 shares. The stock has no listed market value, but is currently quoted over the counter at $13.00 per share.

** Indicates stock in so-called Transamerica Corporation bank[s] in which control or a substantial interest is owned directly or indirectly by Transamerica Corporation. Estimated value for this collateral is $1,159,620.00.

Although the $5.00 par Class "A" voting stock is said to be owned by outside interests, Capital Company, which is 100% owned by Transamerica Corporation through its wholly owned Transamerica [illegible] General Corporation, owns all of the $250.00 par Class "B" non-voting stock which is carried on its books at an investment of $5,000,000.00. The capital was created by the donation of [illegible] [illegible]mitted that Capital Company became the owner of the Class "B" stock merely through the [illegible] company book entrys. It is not reasonable, therefore, to assume that this stock investment which constitutes over 95% of the capital structure is not a major interest controlled "directly or indirectly or in any other manner" by Transamerica Corporation and it is not believed that affiliate relationship has actually been escaped within the intent of the law. This line is both a liberal and unwarranted extension of credit in view of the type and circumstances of the collateral pledged. Insert-#27 Page-E

CONSOLIDATED REPORT

[illegible] DEPARTMENT

No. of Bank 13044

[illegible] CORPORATION AND SUBSIDIARIES LARGE LINE - CONTINUED

[illegible] AND SUMMARY OF VARIOUS EXTENSIONS OF CREDIT

[illegible] obligations of Transamerica Corporation and its subsidiaries, showing the combined total [illegible] the collateral securing this total and reflecting the nature and concentration of [illegible] collateral.

[illegible]	AMOUNT
[illegible] Loans	4 865 220 06
Inter-[illegible]ental Corporation	7 000 000 00
Pacific Coast Mortgage Company	2 750 000 00
[illegible]ica Service Corporation	5 650 000 00
[illegible] States Corporation	1 500 000 00
TOTAL OF LOANS	21 765 220 06

[illegible]lidation of collateral securing this total extension of credit:

[illegible] SECURITY	SHARES	MARKET VALUE	ESTIMATED VALUE	COMMENTS
[illegible]america Agricultural Credit Corp.	10 000*		1 080 000 00	100% of the capital stock.
Central Bank, Oakland, California	79 760*		3 669 330 00	Practically 100% of the 80 000 shrs. outstanding
Occidental Life Insurance Co.	10 000*		2 500 000 00	100% of capital stock
Pacific National Fire Ins.Co.	50 000*		4 000 000 00	100% of capital stock
General Metals Corp.	153 034**	1 377 306 00		264 460 shares outstanding capital stock
First National Bank of Portland	14 869**		2 530 450 00	30 000 shares outstanding capital stock
First National Bank of Arizona	19 005)***			
Phoenix Savings Bank & Trust Co.	19 005)		756 390 00	55 000 shares outstanding capital stock
National Bank of Washington, Tacoma, Wn.	6 095 ***		792 350 00	10 000 shares common stock outstanding.
[illegible] Medical Life Ass'n [illegible]	39 644 2/3		476 208 00	42 445 shares outstanding.
American Medical Life Ass'n. [illegible]	50 000		125 000 00	100% of the outstanding capital stock
[illegible] Company of California	58 824		441 180 00	221 044 shares outstanding
Puget Sound Pulp & Timber Co. [illegible] Pfd.	51 429		668 577 00	125 000 shares of 6% Conv. Pfd. Outstanding
Bank of Amador County, Jackson,Cal.	71		30 175 00	None
Bank of Davis, Davis, Cal.	31		6 386 00	None
[illegible] A. Levy & Co.	40		18 000 00	None
[illegible] Trust Co., Kansas City, Mo	7 423	1 076 335 00	-	60 000 shares outstanding
[illegible]ica-Blair Corp.	26 200	91 700 00	-	Transamerica Corp. owns in excess of 200 000 shrs.
[illegible] Foods Corp.	6 988	265 564 00	-	None
[illegible] Co. of Cal.	11 949	227 031 00		None
[illegible] Stores	2 000	27 000 00		None
[illegible]alifornia National Bank, S F	4 000	51 400 00	-	None
[illegible] City Bank of New York	218 300	5 075 475 00	-	Transamerica Corp. directly and indirectly, owns approximately 10% of outstanding capital stock.
[illegible] Fund Insurance Co.	19 505	1 619 816 00		Transamerica Corp. has additional substantial holdings in this stock.
		9 811 627 00	17 294 046 00	
			9 811 627 00	
TOTAL MARKET AND ESTIMATED VALUE			27 105 673 00	

[illegible] Represents 100% owned subsidiaries of Transamerica Corporation.
[illegible] Represents controlled subsidiaries of Transamerica Corporation.
[illegible] Represents so-called Transamerica Corporation banks in which additional shares are owned by other subsidiaries of Transamerica Corporation.

This total extension of credit to Transamerica Corporation and its interests is liberal in [illegible] of the preponderance of unlisted collateral pledged. In most cases this collateral represents perman[illegible] [illegible]stments of the corporate enterprise upon which no liquidation on the loans can be expected. The [illegible]ration of collateral holdings, showing a minor portion of the securities listed and marketable, [illegible] the question of the elimination of this unsatisfactory concentration of credit. In the past the [illegible] enterprises has seemed little disposed to reduce borrowings from earnings or by sale of assets, [illegible] a program is developed for the ultimate elimination of these loans or at least a reduction of [illegible] total to the limits provided by Section 5200 U. S. R. S. this concentration is subject to adverse [illegible]icism.

Form ...
TREASURY DEPARTMENT
Comptroller of the Currency

CONSOLIDATED REPORT

No. of Bank 13044

A O STEWART AND AFFILIATED LARGE LINE   BOOK VALUE OF TOTAL LINE   8 242 283 57

The A O Stewart and endorsed lines are carried at the San Francisco Main Office in which report of examination $3 500 000 00 is classified as II. The individual lines are carried as follows:

NAME OF ACCOUNT		LOAN	BANK'S COLLATERAL VALUE	INTEREST RATE
A O Stewart - Special			8 571 100 00 #	
A O Stewart - "A" Account	(Bond)	94 078 39	132 880 00	3%
A O Stewart - "B" Account	(Bond)	2 239 458 52	715 061 00	3%
A O Stewart - "C" Account	(Bond)		106 000 00	
A O Stewart - "D" Account	(Bond)		63 600 00	
A O Stewart - "E" Account	(Bond)	433 537 50	448 910 00	3%
A O Stewart - "F" Account	(*)	1 946 126 94	2 196 876 00	3/4%
Sub-total of Stewart direct loans		4 713 201 35	12 234 447 00	
Anglo America Mining Co., End. A O Stewart		369 262 50	312 750 00	5%
Bennett Bros. & Johnson, Ltd. A O Stewart		754 343 36	734 615 00	4%
Farmers Developed Lands Co., End. A O Stewart		58 818 43	18 805 00	3%
Knob Hill Mining Co. End. A O Stewart		202 500 00	0	5%
Pacific Coast Holding Company, End. A O Stewart		197 886 86	88 680 00	4%
Reclaimed Island Lands Co., (A & B) End A O Stewart		1040 650 37	533 815 00	3%
Reclaimed Island Lands Co. (C*) End. A O Stewart		509 725 70	555 900 00	3/4%
Southern Holding Co., End. A O Stewart		28 000 00	44 900 00	4%
West Coast Securities Co. End. A O Stewart		367 875 00	371 600 00	4%
Sub-total of contingent liability		3 529 082 22	2 660 865 00	
Total of A O Stewart and affiliated large line		8 242 283 57	14 895 312 00	

(*) These two loans are secured by U S Treasury bonds on which the bank has authorized loans up to 90% of the market value.

The above loans to and endorsed by A O Stewart are secured specifically and generally by the following collateral, together with the examiner's appraisal:

PAR VALUE OF SHARES HELD	DESCRIPTION	MARKET VALUE	ESTIMATED VALUE
32 491 ½ sh	Transamerica Corporation	324 915.	
5 818.3 sh#	Bank of America N T & S A	279 280.	
	Other listed stocks	149 795.	
2 717 800.	U S Treasury Bonds	2 766 516.	
511 000.	Federal Farm Mortgage Bonds	541 660.	
1 744 000.	Defaulted Railroad Bonds	1 161 125.	
2 712 000.	Chicago Joint Stock Land Bank-Receiver's certificates	94 920.	
1 123 000.	Nevada Irrigation Dist. Bonds	729 950.	
117 700.	Other defaulted bonds	48 861	
500 sh.	San Antonio Joint Stock Land Bank	26 000. (Sold)	
500 sh.	Pacific Greyhound Corp. Pfd	20 000.	
90 sh.	Hollywood Knickerbocker Corp.	270.	
1 251 000 sh	Carson Hill Gold Mining Co.	312 750.	
402 846.6sh.#	Farm Mortgage Holding Company		3 625 641. ?
1 842 sh #	Pacific Coast Joint Stock Land Bank Salt Lake City, Utah		295 560
500 sh #	Western Land Securities Co.		3 287 500 ?
	TOTALS	6 458 042	7 208 701 6 458 042
	TOTAL APPRAISED COLLATERAL VALUE		13 666 743

# Indicates collateral held as additional security under the A O Stewart "Special" Account.

A O STEWART AND AFFILIATED LARGE LINE - Continued

The A O Stewart [illegible] account, showing a present balance of $1 946 126 94 secured by U S Treasury bonds, formerly represented the balance due on the original transaction with the bank, arising from certain agreements between A O Stewart and Transamerica Corporation. During 1930 Mr. A O Stewart and Transamerica Corporation entered into an agreement with respect to the acquisition and reorganization of the Kansas City Joint Stock Land Bank with the understanding that the resultant profit would be equally divided. Mr A O Stewart was to promote the transaction actively and Transamerica Corporation was to assist financially as necessary and also make available the advice and services of some members of its staff. The reorganization was effected under the name of the Farm Mortgage Holding Company. Of the 443 765 shares of capital stock issued by this company, A O Stewart received 201 423.9 shares and Transamerica Corporation received 201 423.9 shares.

On December 15, 1931, Mr A O Stewart because of financial assistance from the corporation in various of his operations owed the bank and various subsidiaries of the corporation a total of $2 272 277 71. At this time Transamerica Service Corporation (formerly National Commercial Properties) sold to A O Stewart the 201 423.9 shares of Farm Mortgage Holding Company stock the corporation had acquired under the agreement mentioned above for $3 000 000 00. This made a total debt owing by Mr. A O Stewart of $5 272 277 71, which was distributed to the bank and other subsidiaries of Transamerica Corporation. This original indebtedness showed substantial reduction and in the examination of the bank as of February 11, 1935, showed a balance of $3 650 152 61. After this examination the indebtedness was transferred in its entirety to Bank of America N T & S A.

In the examination of the bank on October 7, 1935, the total obligations under the A O Stewart line was shown at $5 313 398 63, of which $3 135 875 82 represented the balance due on the original stock transaction referred to above. The increase in the line was occasioned by the maker's activities in purchasing bonds of distressed railroads. For increases in the line the bank advanced the full purchase price of the bonds in question, taking the bonds purchased as collateral for the advances. When bonds were sold under these advances the amount of the purchase price or advance by the bank was credited to the loan and a cashier's check issued for the profit, leaving only the remaining bonds as security for the full advance on their purchase price. A margin of protection under this arrangement was afforded by collateral deposited under the original transaction and the maker's net worth, which was reported to be substantial.

The maker continued his various activities, primarily with funds furnished by the bank, until the total line reached a peak during the examination of the bank on April 27, 1936, at which time the total indebtedness was $6 843 722 56 and was reported as an excessive loan in that report of examination. In the examination of the bank on October 14, 1936 the total indebtedness was shown at $ 6 532 292 63. Since then it has varied in a slight degree until at the time of this examination it is shown at $6 242 283 57 as detailed above.

In the classification of the line at San Francisco Main Office, credit was allowed for $3 306 176. market value of U S Government and Federal Farm Mortgage Bonds, $782 260. market value of listed stocks, which include 5 616 shares of the bank's own stock, and other securities which might be readily marketable at $650 000 . The II classification is secured by miscellaneous defaulted railroad bonds, stock in the Pacific Coast Joint Stock Land Bank, Salt Lake City and stock of the Farm Mortgage Holding Company, which owns control of the Phoenix Joint Stock Land Bank, Kansas City, Mo. and stock of the Western Land Securities Co. An analysis of the latter company's statement shows many of the securities pledged on the line are included in its assets and a duplication of collateral values is the result. However, the company shows as a liability $4 760 000. due to Mr A O Stewart under contract and it was recommended that this contract be assigned to the bank as general collateral.

The most notable change in collateral since last examination has been the withdrawal of 13,[illegible] shares of the Pacific Coast Joint Stock Land Bank of San Francisco, for which there has been substituted in the past year approximately $2 500 000 00 in U S Government bonds. These bonds represented liquidating dividends from the joint stock land bank and have aided materially in strengthening the total line by the quality of the security obtained. The pledge of the Western Land Securities Company stock, also would appear as a substitution of collateral.

In view of the foregoing it would appear that the credit extended is liberal with a major portion of liquidation dependent upon the sale of defaulted bonds having a limited and speculative market, closely controlled for the securities held, plus liquidation or sale of stocks in Joint Stock Land Banks, or other concentrations of collateral. The borrower shows substantial net worth in a current financial statement which is not in sufficient detail for proper credit analysis. Because of the circumstances of the various transactions, its long history and present status, it would appear that the bank should require additional high grade collateral and a program of reduction for continued carrying of this large extension of credit.

[illegible] - continued.

EXTENSIONS UNDER [illegible] CREDITS

ACCEPTANCE LINE		
Acceptances Purchased	$5,191,[illegible]51.97	
Acceptances sold with Bank's endorsement	569,096.69	
Unused Letter of Credit	114,964.97	$5,875,313.63
UNPAID ACCEPTANCES "ADVANCES"		
German	392,595.26	
Austrian	16,730.32	409,325.58
SYNDICATE PARTICIPATIONS		
German Government "Lee Higginson & Co."	2,226,575.33	
Bavarian State Bank - Munich	145,761.48	2,372,336.81
AUSTRIAN CREDIT		16,730.32
Blocked Bank Account - Berlin		226,278.44
Total		8,899,984.78
Less "Loan Reserve"		3,008,000.62
Net Total Carried In Active Assets		5,891,984.16

This concentration is carried in the International Banking Department of San Francisco in which Report of examination details and comments are shown.

With the exception of the so-called "Lee Higginson Syndicate Participation", these credits are subject to the "Standstill Arrangements", originating on September 17, 1931 and through the medium of eight renewals, have now been extended to February 28, 1939. The present arrangement provides for the repayment of indebtedness of German Bank and other debtors in Registered Reichsmarks, subject to stated limitations. The percentage of value ascribed by local markets to these Marks, in relation to the Free Mark is made the basis for the classification of the "Standstill Credits", the rate of discount having steadily increased to 55%. During the recent war scare the Registered Reichsmark dropped to 2½ cents or a discount of over 90% in relation to the Free Mark which clearly reflects the potential danger in this highly undesirable concentration of credits. The classification of the so-called "Lee Higginson Credits" is based upon the market value of other German Government obligations.

The reduction of approximately $106,000.00 in this concentration since the previous examination was obtained principally through the repayment of a portion of the indebtedness guaranteed by the Deutsche Golddiskontbank, the sale of "Conversion Rights" allotted to participants in the "Lee Higginson Syndicate", and a pro-rata portion of a special fund set aside for foreign creditors created by license fees collected on Travel Marks.

During the examination of October 14, 1936, an agreement was reached with the management to the end that beginning with the first examination in 1937, the sum of $1,000,000.00 would be charged off at each ensuing examination until the entire exchange loss has been eliminated. On the present basis of value this program should be completed before June 30, 1939. A total of $3,008,000.62 has been charged off on this concentration since 1937.

CONSOLIDATED REPORT

No. of Bank 13044

RECAPITULATION OF LARGE LINES BY CLASSIFICATIONS

NAME OF BORROWER AND GUARANTOR	BOOK VALUE	II	III	IV
Transamerica Corporation				
Guaranteed Loans	4 665 220 06	4 665 220 06		
Option to Purchase	2 173 440 00			
Loans secured by Transamerica Corporation stock	4 711 306 26			708 800 00
Investment in stock of Transamerica Corporation	64 299 69			3 817 94
Inter-America Company				
Direct secured loan	832 100 00			
Discounts for collection	41 761 38			
Inter-America Agricultural Credit Corp.				
Direct unsecured loan	75 000 00			
Livestock loans discounted	4 491 876 44			
California Lands, Inc.				
Direct loans-secured and unsecured	382 417 93			
Real estate loans discounted	194 865 70	170 554 80		
Real estate sales contract	11 656 436 09	11 656 436 09		
Capital Company				
Direct real estate loan	175 000 00			
" " " "	350 000 00			
" " " "	225 000 00			
" " " "	166 000 00			
Real estate sales contracts	24 911 358 96	24 911 358 96		
Intercontinental Corporation	7 000 000 00			
Pacific Coast Mortgage Co.	2 750 000 00			
Transamerica Service Corporation	5 650 000 00			
Western Furniture Exchange, Inc.	560 000 00			
Western States Corporation	1 500 000 00			
SUB-TOTAL	72 798 082 51	41 625 569 91	0	712 617 94
10 [illegible] and affiliated large line	8 242 283 57	3 500 000 00		
[illegible] under German Credits	5 891 984 16	3 321 838 51	1 289 010 51	1 000 000 00
TOTAL	86 932 350 24	48 447 408 42	1 289 010 51	1 712 617 94

Form [illegible]
[illegible] DEPARTMENT
[illegible] of the Comptroller of the Currency

CONSOLIDATED REPORT

No. of Bank 13044

MERCHANTS NATIONAL REALTY CORPORATION
(See Inserts 23 to 44)

Total Book Value of the investment as shown by the bank's books	19 129 108 10
Real Estate on the Corporation's books that properly should be shown as Other Real Estate Owned on the Bank's books (Inserts 38 to 41) classified as II.	5 055 151 62
Net total of the investment that is carried properly as an investment in a corporation holding title to banking premises	14 073 956 46

Notes:

Bank's investment book value	$19 129 108 10
Corporation's net worth (as per balance sheet)	18 981 291 66
Net difference	147 816 44

The difference between the bank's carrying value for this investment and the corporation net worth, as shown above, is not herein classified as IV, as has been the practice in prior reports of examination. This difference is considered to be fully covered by reserve accounts not shown in the combined capital and surplus figure on the corporation's books shown above. It is suggested that the bank adjust its accounting procedure for Merchants National Realty Corporation to reflect the true net worth of that corporation.

LEASE AGREEMENT WITH THE BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION

During the current year of 1938 the bank has been paying a monthly rental to the corporation, for banking premises leased, at a rate of $31,250.00. This rental, however is subject to annual adjustment under the terms of the Lease Agreement which is shown on Inserts #30 to #37 inclusive, following.

LEASEHOLD PREMISES

In addition to properties wholly owned by the corporation, there are certain leasehold premises (noted on the schedules of Banking Premises) the details of which are set forth below:

[illegible] and Washington, Los Angeles
Lease dated 1-1-23 expiring 12-31-47, providing for a monthly rental of $500.00, which rent is paid by the corporation.

Beverly Hills Branch
Lease dated 3-1-39 expiring 2-28-2024, providing for a monthly rental of $[illegible].00, which rent is paid by the corporation.

[illegible] Branch
Lease dated 6-1-22 expiring 6-1-72, providing for a monthly rental of $40.00, which rent is paid by the corporation.

7th and Olive Branch, Los Angeles
Lease dated 11-21-21 expiring 11-30-2020, providing for a monthly rental of $[illegible].00. The building formerly owned by the bank was transferred to the Merchants National Realty Corporation and is now owned by it. The land rent under the leasehold is being paid by Bank of America National Trust & Savings Association.

[illegible] AND FORMER BANK PREMISES

Formerly carried by the bank under an agreement of sale with Transamerica Corporation and transferred to Merchants National Realty Corporation on July 14, 1937 are shown as investments that should be shown properly on the books of the bank as Other Real Estate Owned. (See Inserts #38 to #41 inclusive, following.)

Agreement appointing Capital Company as exclusive agent for the sale and management of these properties is shown under Inserts #42 to #44 inclusive.

OTHER REAL ESTATE OWNED

In this report on foregoing inserts of this Page 14, in the Classified loans on Page 7, under "Large Line of Transamerica Corporation and its Subsidiaries" on Page 6, and under the heading "Merchants National Realty Corporation" on this Page 14, various matters relating to Other Real Estate Owned are detailed. These items are consolidated below in order to present a more complete picture of the bank's total investment in this type of asset.

WHERE DETAILED IN REPORT	BANK'S GENERAL LEDGER ACCOUNT	OTHER REAL ESTATE OWNED-Book Value
Consolidated Report - Page 14	Other Real Estate Owned	3 636 752 92
Consolidated Report - Page 7 and Page 6	California Lands, Inc. Contract Capital Company Contracts	11 658 436 09 24 911 358 96
	SUB-TOTAL	40 206 546 97
Consolidated Report - Page 14	Banking Premises Owned	1 361 740 06
Consolidated Report - Page 14	Merchants National Realty Corp.	5 055 151 62
	Total Other Real Estate Owned	46 623 438 65

In order that your office may have a clearer conception of the magnitude of the Other Real Estate transactions and the origin of contracts with California Lands, Incorporated and Capital Company, a brief history is submitted showing the involved development to the present asset total. This outline is treated in three periods as follows:

I On October 21, 1927, date of the first examination of the Bank of Italy by the National Banking Department, the books of the bank showed $1 671 602 32, in Other Real Estate Owned. The time from that date through 1930 constitutes a definite period in the bank's method of handling the assets. During the period the bank acquired under foreclosure real estate with a book value of $11 524 577 01. This amount plus that on hand at the beginning of the period made a total of $13 196 179 33. Also during the period, but prior to consolidation of Bank of Italy National Trust & Savings Association with Bank of America of California November 1930, this real estate (acquired by the former) was sold under contracts to National Bankitaly Company, a subsidiary, stock interest of which was owned pro-rata by shareholders of the bank.

Individual contracts covered each parcel, terms of which were substantially as follows: The company paid down a minimum of 25% of the sale price with the balance spread over five annual installments. During the period the company paid $5 469 009 39, which represented required down payments, installment payments and proceeds from sales to the public. The net balance of Other Real Estate Owned at the end of the period as shown by the bank's books was $7 727 169 94. This entire amount was under sales contracts detailed above.

II The next general period in the history of Other Real Estate Owned extended from January 1931 to April 14, 1934, the date of present contracts. Between the consolidation on November 1, 1930, (see above) and March 2, 1931, the bank's general ledger account for Other Real Estate Owned showed little change; the balance was $7 727 169 94 on the latter date. As of March 2, 1931, all contracts with the Corporation of America, (now successor to National Bankitaly Company) were cancelled. New contracts were drawn with California Lands, Incorporated, for country properties and with Capital Company for city properties. Both of these companies were owned by Corporation of America through an intermediate subsidiary, Realty Holding Corporation. On March 2, 1931, the Other Real Estate shown on the books, amounting to $7 727 169 94, was sold under these new contracts to California Lands, Incorporated, for $5 526 357 15 and to Capital Company for $2 200 812 79.

√

OTHER REAL ESTATE OWNED
(continued)

Contracts covering all properties acquired prior to November 1, 1930, date of consolidation with Bank of America of California, were for the balance due on the old contracts with National Bankitaly Company, now Corporation of America, except those subject to redemption or guarantee. Contracts for those properties transferred November 1, 1930, (Bank of America of California acquisitions with exceptions as above) and thereafter were for the amount of the contract, (i.e. cost to the bank) and, in the case of all acquisitions by the new bank - cost or appraised value, whichever was lower. Contracts covering properties subject to redemption were for the full amount due to the bank, but when the one year redemption period expired the contract was adjusted to the appraised value, if necessary. Any reduction of contracts covering guaranteed properties was made upon settling the guarantee. Beyond these special adjustments all contracts called for a down payment of 10% of sale price, with balance due in a lump sum five days before expiration of a five year period.

Concurrently the bank's general ledger accounts "Other Real Estate Owned" and "Interest Allowed Branches on Real Estate Acquired" were closed. An account "Real Estate Sales Contracts" was opened, representing the balances due from Capital Company and California Lands, Incorporated, under the contracts. Losses incurred by the bank upon sale to these companies were charged to a general Ledger Account, "Reserve for Losses - Administration". This account was used until July 1, 1931, when it showed $570,377.57 in losses taken.

From January 1931, settlement of foreclosures provided for credit of accrued interest uncollected to interest earned. The offsetting amount was an addition to book value of the property acquired. However, upon sale of the property to one of the companies never more than 10% of the sale price was received in cash, the full balance was not due for five years, and, as shown hereafter, many properties were never sold. Therefore, the bank reported and used as earnings what was at best a deferred item presently existing in loans and discounts under contracts of sale on its own books. The legal fee added to the book value of the property was credited to earnings of the legal department. This was always the full amount provided by law or by the deed of trust. Fees to outside attorneys were paid by the legal department. The record appeared in the general ledger under "Legal Fees Earned - Administration".

On September 26, 1931, the bank discontinued sales under contract to California Lands, Incorporated, and Capital Company. The account "Other Real Estate Owned" was reopened in the general ledger. For new acquisitions the charge to Other Real Estate Owned represented the loan plus costs, plus accrued interest or appraised value of real and personal property, whichever was smaller. A loss, if any, was placed in "Real Estate Suspense Resources" pending reimbursement from the Loan Adjustment Department (1) except in those cases where the loan was protected by a reserve fund set aside by United Security Bank & Trust Company, at the time it was merged with Merchants National Bank to form Bank of America of California (2). Losses were collected from Corporation of America until October 29, 1931. Thereafter they were collected through the Loan Adjustment Department. In February, 1932, reference to the reserve fund was discontinued (3).

(1) The Loan adjustment Department had been organized previously to liquidate charged off assets.

(2) The exception mentioned is the same as that contained above in reference to contracts under guarantee. For practical purposes of the present analysis this chain of merger need be considered only in its ultimate result, the Bank of America of California.

(3) Corporation of America was owned 100% by shareholders of Bank of America of California, and National Bankitaly Company was 100% owned by shareholders of Bank of Italy N.T. & S. A. When those two banks were merged on November 1, 1930, ownership of the subsidiaries was combined under the name of Corporation of America, and was then owned 100% by shareholders of Bank of America N.T. & S.A., in which Transamerica Corporation was a 99% shareholder. Corporation of America, as the 100% owned affiliate of Bank of America of California, had carried certain reserve funds to protect assets of banks taken over and combined with the various other banks comprising that branch chain before its consolidation with Bank of Italy N.T. & S.A. to form Bank of America N.T. & S. A. In 1931 and early part of 1932 Corporation of America (100% owned by shareholders of Bank of America N.T. & S.A.) purchased from Bank of America N.T. & S.A. approximately $35,000,000.00 in losses and non-bankable assets, among which were certain of the real estate foreclosure losses referred to above. The assets so purchased by Corporation of America were never set up on that company's balance sheet as assets, but there was a reserve for loss created and set up as a liability on its balance sheet. The assets themselves remained with the bank's loan adjustment department as collecting agent for the corporation, and reserve adjustments to February, 1932 were a part of the assets under the $35,000,000.00 contracts. In the latter part of [illegible], Corporation of America distributed a major portion of its assets to its shareholders and its liability under the contracts of purchase with Bank of America N.T. & S.A. was assumed by Transamerica Bank Holding Company (later changed to [illegible] Corporation).

OTHER REAL ESTATE OWNED
CONTINUED

About December 1, 1931, foreclosure settlement was changed. No interest was allowed to branches but was reversed upon notice of authorization to foreclose. No attorney fees were paid to the Legal Department.

In April, 1932, the bank still placed losses in "Real Estate Suspense Resources". There is some indication that a portion of these losses were included later in the total Inter-America Corporation Contracts (3)(above). On June 29, 1932, the losses accumulated in "Real Estate Suspense Resources" were charged to "Administration Losses" and then to "Reserve for Contingencies Special".

Properties acquired and sold to Capital Company or California Lands, Incorporated, on November 1, 1930, were called "B" properties. By agreement dated January 1,1931, the bank took the loss or profit resulting from sale of such properties by Capital Company or California Lands, Incorporated. These losses from March 2, 1931 to July 1, 1931, were charged to "Reserve for Losses - Administration" and after July 1, 1931, they were charged to "Administration Losses". Any profit was credited to "Recoveries - Administration".

When a contract parcel was sold by Capital Company or California Lands, Incorporated, the contract was paid in full at once to the bank. When contracts matured respective properties were deeded to the companies. However, in many cases title had already been conveyed to California Lands, Incorporated, by virtue of an arrangement in force until November 1, 1930.

On June 30, 1932, the bank sold under contract to Capital Company all city properties in its "Other Real Estate Owned" account as of May 31, 1932, amounting to $2 346 664 72. This group also was classed as "B" property and specific contracts were prepared for each parcel. No down payment was provided. The price was the exact charge to "Other Real Estate Owned". These contracts matured four years, three hundred sixty days from the date acquired by the bank.

For acquisitions from July 1, 1932, the charge to "Other Real Estate Owned" represented the loan plus interest plus costs, no charge being made for carrying value of chattels. Loss or profit per transaction was determined upon sale of real estate and personal property, then charged to profit and loss accounts.

The bank continued to dispose of real estate by selling from "Other Real Estate Owned" account to individuals and to Capital Company and California Lands, Incorporated, under contracts. The companies were also selling contract properties to the public. Bank sales to the affiliates provided no down payment and a maturity approximately five years from date of acquisition. Interest rate was 1% per annum. Inability of Capital Company and California Lands, Incorporated, to fulfill terms of the sales contracts was demonstrated when the bank discounted certain notes and contracts for their benefit, proceeds being used to meet maturing contracts. Further, it was necessary to extend to June, 1938, some three million in contracts maturing in 1933.

During this second period from January 1, 1931 to April 14, 1934, the following gross transactions are reflected under the various contractual relations and the bank's methods of handling its "Other Real Estate Owned".

1 - The bank acquired under foreclosures properties set up on its books, either under "Other Real Estate Owned" or under the companies contracts, amounting to $39 270 113 77.

2 - The bank sold directly to the public from its "Other Real Estate Owned" account $2 750 572 39, while the companies sold properties under contracts amounting to $6 526 646 24. The combined total of liquidation was $9 277 218 63.

3 - The net increase in "Other Real Estate Owned" still held at the end of the period was $29 992 895 14.

4 - The net increase in "Other Real Estate Owned" amounting to $29 992 895 14, plus the balance on the bank's books as of March 2, 1931, $7 727 169 94, makes an aggregate total of $37 720 065 08, invested in "Other Real Estate Owned" on April 14, 1934, shown as follows in the bank's books:

Other Real Estate Owned Account	9 177 [illegible]
Capital Company Contracts	[illegible]
California Lands, Incorporated, Contracts	[illegible] 13
	[illegible] 08

OTHER REAL ESTATE OWNED
CONTINUED

III The third period of the bank's management of "Other Real Estate Owned" began April 14, 1934, when it signed new agreements of sale with both Capital Company and California Lands, Incorporated, transferring the balances shown above for each company to new contracts, terms of which are substantially as follows:

1- All previous contracts are terminated and all properties included under the new contracts.

2- The bank agrees to accept at face value, cash, notes or sales contracts, arising from sale of real estate by the companies.

3- No down payment is required. Two years from date of contract, one-tenth of the purchase price becomes due and a like amount in annual installments thereafter.

4- Title to properties remains with the bank until resale, at which time the bank will convey title to the purchaser.

5- The bank agrees to pay all taxes on contract properties.

6- The companies will receive all income and pay all expenses (except taxes), including insurance. The companies pay interest on the outstanding balance of contracts at 1% per annum payable semi-monthly.

7- The companies will rehabilitate and improve properties, but the cost will be added to and become part of the unpaid balance due under the contracts.

Until June 1, 1938 the bank continued to handle real estate acquired under foreclosure as authorized under contracts above. Particular attention is directed to the fact that no down payments were required until approximately two years after date of contract and then only one tenth-of the face amount of the contracts or purchase price and a like installment annually thereafter. The California Lands, Incorporated, contract provides for continued sales by the bank to the company of all country properties acquired under foreclosure and payment in ten annual installments after inclusion in the contract. Capital Company entered into several separate contracts (seven); the first of which was for the balance shown above. As real estate was accumulated in the bank's Other Real Estate Account another contract was drawn covering a large group of properties. This procedure was followed until March 27, 1935, when the contract of that date provided for the same practice regarding additional foreclosures as the continuing contract with California Lands, Incorporated.

From April,1934, the bank sold properties to the companies at cost to the bank, including in most cases accrued interest on the loan and foreclosure costs. This procedure continued until 1935, when in the fall of that year the bank made adjustments totaling $1 902 230 07, covering properties sold during 1935 to conform the sale price to the bid in price at foreclosure, or the companies value, whichever was smaller. Through 1936, 1937 and 1938 sales to the companies were made on this basis, the bank taking whatever loss was suffered under the loan and charging to "Losses on Foreclosed Real Estate Loans". In all cases the companies agreed to pay the bank the full purchase price as shown under the contract and, in event of a loss on a resale to pay the loss in cash. It should be noted, however, under this procedure that the companies are in a position to set their own purchase price, upon which they are to adjust any subsequent profit or loss.

Transactions involved under the Capital Company and California Lands, Incorporated contracts have been treated in each report of examination since inception of these contracts. In previous reports the contracts themselves have been included. In this report reference is made to "Large Lines of Transamerica Corporation and its Subsidiaries" for a current reconcilement of performance.

OTHER REAL ESTATE OWNED
CONTINUED

Since the origin of the present contracts on April 14, 1934, and the date of this examination, the bank has acquired "Other Real Estate Owned" amounting to $46 388 345 41. It has sold directly from the Other Real Estate Owned Account properties having a book value of $7 024 966 61, including certain adjustments and charge offs. The companies have made payments on the contracts amounting to $37 019 513 14, resulting from sales and including certain adjustments by the bank. The combined liquidation and improvement on these assets during this period has been $44 044 479 75. The net increase in Other Real Estate Owned has been $2 343 865 66, as reflected by the above figures. This increase plus the carry-over balance on the bank's books as of April 14, 1934, amounting to $37 720 065 08, makes an aggregate remaining investment in this group of assets of $40 063 930 74 at the end of the (entire) period covered (October 1, 1927 to November 31, 1936).

SUMMARY:

The transactions outlined above have not included portions of Banking Premises Owned and Merchants National Realty Corporation which properly should be carried as Other Real Estate Owned. The origin of those investments is somewhat different from real estate acquired in foreclosure of real estate loans, so the circumstances surrounding the bank's acquisition of these investments are treated under separate heading in this report.

A summary reconcilement of the gross transactions in the Other Real Estate Account and transactions with Capital Company and California Lands, Incorporated, is shown as follows:

PERIOD COVERED	ACQUISITIONS UNDER FORECLOSURE	PAYMENTS, SALES, CHARGE OFFS, AND ADJUSTMENTS	BALANCE
10-21-27 to 12-31-30	13 196 179 33	5 469 009 39	7 727 169 94*
1-1-31 to 4-14-34	39 270 113 77	9 277 218 53	37 720 065 08*
4-14-34 to 11-21-36	46 388 345 41	44 044 479 75	40 063 930 74*
TOTALS	98 854 638 51**	58 790 707 77**	40 063 930 74*

(*) NOTE: That portion of real estate owned represented by contracts on subdivision parcels sold is not included in any of the above figures. The present net balance of such items carried on the bank's books is $142 616 23, which figure is combined with Other Real Estate Owned totalling $3 494 135 69 to make the aggregate figure shown on the face of this report.

(**) NOTE: These totals do not include properties acquired under foreclosure and then sold prior to debiting the cost price to the Other Real Estate Owned Account. Since the examination of 4-28-36 to the date of this report the bank has acquired and resold twenty-three such properties having a book value cost of $102 833 90

[illegible]
[illegible] DEPARTMENT
[illegible] COMPTROLLER OF THE CURRENCY — [illegible]

CONSOLIDATED REPORT

No. of Bank 13044

OTHER REAL ESTATE OWNED
CONTINUED

RECAPITULATION OF LOSSES AND RECOVERIES ON FORCLOSED REAL ESTATE
REFLECTING IN ADJUSTMENTS ON THE GROSS FIGURES PRESENTED ABOVE

	LOSSES ON SALES FROM OTHER REAL ESTATE OWNED *	LOSSES ON LOANS PRIOR TO CHARGE INTO O.R.E.O.	PROFITS ON THE SALE OF OTHER REAL ESTATE
[illegible]	None		
[illegible]	None		
[illegible]	None		
[illegible]	None		
[illegible] half only)	97 208 45	1 006 180 99	56 790 18
[illegible]	262 192 19	652 257 66	86 500 87
[illegible]	315 120 70	-	57 314 47
[illegible]	309 115 64	-	40 006 02
[illegible]	115 565 75	340 783 77	10 427 44
[illegible]	1 902 230 07 **		
[illegible]	1 040 164 79	1 723 192 28	9 197 82
[illegible]	994 429 43 ***	626 741 59	1 136 202 74***
[illegible] half only)	119 990 67	463 416 63	16 196 67
[illegible]	5 156 037 69	4 612 572 92	1 412 638 21
	657 645 03 ****		
	5 613 682 72	4 612 572 92	1 412 638 21

[illegible] amounts in this column are the only ones comprising a portion of adjustment credits [illegible] in the gross payment etc. figures above.

[illegible] the adjustment made by the bank as a charge off on contracts for properties sold [illegible] companies in 1935.

[illegible] portion of this item represents the sale of certain subdivision properties to [illegible] Company under contract, upon which the bank took a charged off loss of $965 440 70 [illegible] properties and a write up profit of $658 966 79 on certain other properties [illegible] the same contract.

[illegible] a payment by California Lands, Inc. on 7-14-37, to cover loss on certain pro[illegible] sold to Capital Company and certain other properties retained under contract. [illegible] adjustment arose out of elimination of the Inter America Corporation Contracts and [illegible] therefor of the "Guaranteed Loans", circumstances of which transaction [illegible] explained under "Large Line of Transamerica Corporation and Its Subsidiaries" [illegible] #6, of this report.

[illegible] adjustment figures shown above when combined with the gross figures in the recon[illegible] acquisitions and payments from 1927 to date (above) reflect the following:

[illegible] acquisitions as shown by book values	98 854 638 51
Losses and adjustments taken prior to charge into the Other Real Estate Account	4 812 572 92
TOTAL BOOK VALUE OF LOANS ON REAL ESTATE - FORECLOSED	103 667 211 43
[illegible] of Payments, sales and adjustments at book value	58 790 707 77
Profits from the sale of real estate acquired	1 412 638 21
	60 203 345 98
Losses on real estate sold and charge offs on contracts which have been taken by the bank	5 613 682 72
NET TOTAL LIQUIDATION FROM ACTUAL PAYMENTS AND SALES	54 389 663 26

OTHER REAL ESTATE OWNED - Continued

OTHER REAL ESTATE INCOME AND EXPENSE, INCIDENT TO THE ABOVE TRANSACTIONS AS REFLECTED IN THE OPERATING PROFITS OF THE BANK FOR THE YEARS SHOWN

YEAR	INTEREST RECEIVED ON THE CONTRACTS	OTHER REAL ESTATE INCOME	OTHER REAL ESTATE EXPENSE	OTHER REAL ESTATE TAXES
1927	-	-	-	
1928	-	89 903 57	3 686 11	-
1929	-	156 092 35	7 548 06	-
1930	-	271 866 97	7 724 32	-
1931	70 838 00	104 832 44	101 238 97	-
1932	100 791 00	446 514 00	567 606 00	383 766 37
1933	178 800 00	528 821 00	431 104 00	554 930 00
1934	322 821 00	512 947 00	339 157 00	852 845 00
1935	435 261 00	191 077 00	217 375 00	1 140 140 00
1936	425 684 00	47 996 00	229 694 00	1 301 907 00
1937	430 320 00	23 217 00	181 723 00	1 223 939 00
				1 082 342 00
TOTALS	1 964 715 00	2 375 284 93	2 087 096 45	6 539 869 37
		1 964 715 00		2 087 096 45
TOTAL INCOME		4 339 999 93	TOTAL EXPENSE	8 626 965 82
			Less: Total Income	4 339 999 93
			NET TOTAL EXPENSE	4 286 965 89

The figures above show more clearly the extent and result of the operations in connection with real estate acquired under foreclosure, for the period extending from October 21, 1927, to the date of this examination, November 21, 1938. These operations can be summarized briefly as follows:

1. During the period the bank set up on its books Other Real Estate Owned having a book value of $ 98 854 638 51, after taking losses of $ 4 812 572 92, the combined book cost amounting to $ 103 667 211 43, representing the book value of the real estate loans at the time of foreclosure.

2. The bank credited Other Real Estate Owned $ 58 790 707 77, in which amount was included charge offs on the contracts and losses taken on real estate sold amounting to $5 813 682 72, representing profit and loss adjustments. This latter amount of loss is offset to a degree by $1 412 638 21 in profits on the sale of properties (858 966 79 being a write up on certain subdivisions sold to Capital Company under a contract carried in the bank's assets). The resulting net liquidation of Other Real Estate Owned from actual payments and sales to outside purchasers amounted to $ 54 389 663 26 after the above adjustments.

3. In addition to (1) and (2) above, the net expense involved in handling this volume of Other Real Estate amounted to $4 286 965 89, reflecting in the bank's earnings for the years 1927 to 1937, inclusive.

4. At the end of the period there remains on the bank's books as Other Real Estate Owned a total investment of $ 40 063 930 74, which the bank acquired in the following years:

PERIOD	NUMBER OF PARCELS ON THE BOOKS	%	BALANCE OF ACQUISITIONS REMAINING	%
1929 and prior	131	6.02	1 189 360 90	2.95
1930	116	5.33	1 746 788 31	4.34
1931	147	6.75	3 363 099 74	8.36
1932	315	14.47	6 857 517 11	17.00
1933	340	15.62	7 097 785 59	17.65
Sub-total held five years or over	1 049	48.20	20 254 551 65	50.32
1934	274	12.59	5 864 273 80	14.63
1935	[illegible]	13.23	3 4[illegible] 361 56	8.57
1936	200	9.19	4 765 441 81	11.81
1937	191	8.77	2 836 314 15	7.05
1938	174	7.99	2 977 604 00	7.40
Sub-total held for less than five years	1 127	51.80	19 971 995 32	49.68
TOTAL	2 176	100.00	[illegible]	100.00

✓

OTHER REAL ESTATE OWNED—CONTINUED

CONCLUSION:

The magnitude of Other Real Estate Owned transactions is one of the bank's major asset problems. This is evidenced by the various methods adopted to handle and promote the sale of these assets. The inability to meet the problem completely is shown by the fact that in none of the three periods outlined above has the bank's liquidation of these assets exceeded its acquisitions. All through the history of acquisitions and sales it is apparent that the bank has attempted to put these assets in a form that would reflect to advantage in all published reports of condition. This fact, in addition to that of dominating management, is largely responsible for the origin of the contracts with Capital Company and California Lands, Incorporated, which have been shown always as Loans and Discounts. The period from 1931 to 1934 shows the greatest diversity in methods of handling properties, and it was in that period that acquisitions began to reach their true proportions, apparently far in excess of what had been anticipated. The failure of the companies to meet the conditions contained in contracts drawn during the period resulted in the rearrangement of the whole plan and the re-drawing of the contracts in their present form.

The question is presented whether disposal of other real estate owned under the contracts with Capital Company and California Lands, Incorporated, represents a bona fide sale or an agency agreement. This question is important particularly because of the fact that the bank receives no down payment on sales and because approximately a two year period was allowed before performance was required under the contracts. Then, too, title to all properties is retained by the bank or its nominees, being conveyed only when sales to outside purchasers are made by the companies. The bank pays all real estate taxes on properties under the contracts until such sales are made. Terms of the contracts relative to income and expenses seem to indicate that such items are more in the nature of management fees, while the bank retains as income only 1% per annum on total book value of balances due under the contracts. While it is true that under the present contracts the companies have performed in excess of requirements, this performance has been accomplished primarily by sales to outside purchasers, and the companies have advanced only that amount necessary to cover losses on sales. The remaining properties under the contracts are held without down payment, and there is little indication that the companies have interest in the properties other than as selling and managing agent for the bank.

The ability of the companies to complete the terms of their contracts depends upon the sale of real estate thus acquired. During 1936 and the early part of 1937 volume of sales showed marked improvement. Since then the real estate market appeared to have weakened, however, verbal reports from the two companies indicate that the total of 1938 sales showed an increase over 1937 sales. Further liquidation from sales is to be expected, for at the present time acquisitions under foreclosure have reached a more normal level, which is lower in comparison to past experience. Any normal sales performance should exceed the present rate of acquisitions, but normal performance is necessary to reflect a correction in this frozen concentration.

The bank stated that an earnest endeavor has been made to dispose of all undesirable properties and that this has been the principal concern behind past sales performance. However, there has been also a tendency to hold desirable income properties for future appreciation by over-pricing them in the real estate market. The wisdom of this policy is questioned in view of the fact that of the present book value investment in Other Real Estate Owned approximately $2 900 000 00 was acquired prior to 1931 and that approximately $17 300 000 00 was acquired prior to 1934. The combined total of these acquisitions carried for five years or more amounts to $20 200 000 00, or approximately 50% of the present dollar investment. It is true that the volume of properties handled has decreased materially, there being at present slightly in excess of two thousand parcels under contracts and on the books of the bank. This has resulted in a higher average carrying value for those properties now held, namely, in excess of $16 000 00 per parcel. Sales in the past have averaged slightly in excess of $5 000 00 per parcel. It would appear from these figures that a surplus of properties requiring substantial purchaser investment has developed in the bank's Other Real Estate. Whether all of these properties are highly desirable income properties remains an undisclosed fact, subject to a separate analysis for determination. Whatever the result of the analysis, the fact remains that the bank has too high a concentration in real estate of a fixed nature, never considered to be primarily suitable for bank investment.

AFFILIATES SAID TO HAVE BEEN ELIMINATED AFTER EXAMINATION OF AUGUST 31, 1937.

[illegible]america Corporation, parent corporation.
It is said that less than 50% of the shareholders of Bank of America, NT & SA own capital stock of Transamerica Corporation.

Bank of America (State)
Now Central Bank, Oakland, California.
98.99% owned by Transamerica Corporation.

Corporation of America
99.88% owned by Transamerica Corporation.

First National Bank of Nevada, Reno, Nevada.
Formerly First National Bank in Reno, Nevada.
99% owned by Transamerica Corporation.

First National Corporation of Portland, Oregon
75.25% owned by Transamerica Corporation.
Sold to Western States Corporation (See Large Lines) in 1938. Announced on August 29 that assets would be liquidated. At time of sale Transamerica Corporation owned 85% control directly and through holdings of subsidiaries.

First National Bank of Portland, Oregon
46.61% owned by Transamerica Corporation.
38.01% owned by First National Corporation of Portland. Ownership has been revised since.

First Securities Company
100% owned by First National Bank of Portland.

Transamerica General Corporation
100% owned by Transamerica Corporation.

America & Security Corporation
Now Inter-America Corporation.
100% owned by Transamerica General Corporation.

Bankamerica Agricultural Credit Corporation
100% owned by Transamerica General Corporation.

California Joint Stock Land Bank of San Francisco
100% owned by Transamerica General Corporation.

California Lands, Inc.
100% owned by Transamerica General Corporation.

Capital Company
100% owned by Transamerica General Corporation.

Coast Service Company
100% owned by Transamerica General Corporation.

Occidental Life Insurance Company
100% owned by Transamerica General Corporation.

Pacific National Fire Insurance Company
100% owned by Transamerica General Corporation.

The Bank of Lake
68.14% owned by Transamerica General Corporation.

Northern California Bank of Savings
95.87% owned by Transamerica General Corporation.
Now consolidated with Central Bank, Oakland, California.

Bankamerica Company
100% owned by Transamerica General Corporation.
Sold in December, 1937 to Western States Corporation.

AFFILIATES SAID TO HAVE BEEN ELIMINATED AFTER EXAMINATION OF AUGUST 31, 1937. - Cont.

Banca d'America e d'Italia
69.65% owned by Transamerica General Corporation.

Societa Immobiliare Lombardi
100% owned by Banca d'America e d'Italia.

Societa Edilizia Viareggina
100% owned by Banca d'America e d'Italia.

Ameritalia Travel Service S A I
100% owned by B anca d'America e d'Italia.

Banca Immobiliare Italiana
100% owned by B anca d'America e d'Italia.

Inter-Continental Corporation
100% owned by Transamerica General Corporation.

American Brokerage, Inc.
100% owned by Inter-Continental Corporation.

Associated American Distributers (Incorporated)
100% owned by Inter-Continental Corporation.

General Metals Corporation.
50.70% owned by Inter-Continental Corporation.

Transamerica Service Corporation.
100% owned by Transamerica Corporation.

. . . .

EFFECT UPON THIS BANK, AND INFORMATION ON LOANS AND INVESTMENTS INVOLVING THE ABOVE CORPORATIONS

Parallel to the distribution by Transamerica Corporation of its majority interest in Bank of America, NT & SA and the intended erasure of affiliate relationship, various realignments of the debts owed by the above corporations were effected:

(a) The Inter-America Corporation Contracts formerly held by the bank were substituted by the Guaranteed Loans (covering charged off assets) and an Option to Purchase was given to Transamerica Corporation (covering 56 600 shares of National City Bank of New York.) These transactions are fully commented upon under Transamerica Corporation and Subsidiaries' Large Lines, Page 6 of this report.

(b) The Transamerica Corporation Contract for the purchase of so-called "Future and Other Bank Premises," formerly held by the bank, was eliminated as a direct liability of that corporation through sale of the properties under the contract to Merchants National Realty Corporation. This transaction is fully commented upon under Other Real Estate Owned, Merchants National Realty Corporation, Page 14, inserts #64 to 90, of this report.

(c) There was reflected in the examination report of April 26, 1938 a decrease in all loans dependent upon stock of Transamerica Corporation. This was due to distribution of shares of the bank as an asset dividend, and to a reduction in the outstanding shares of that corporation's stock. For the decrease in loans dependent upon stock of Transamerica Corporation the bank took in lieu thereof, as shown by the report 94 378.5 shares of its own capital stock as security for loans totalling $11 691 682.40; with a dependancy upon the bank amounting to $3 305 862.43. As of the present examination loans in the same category total $18 963 427.20, of which $3 171 200.93 is dependent upon 88 092.1 shares of the bank's capital stock. As of the present examination there is still $4 711 306.22 in loans dependent upon 612 125 shares of Transamerica Corporation stock, - a small decrease since last examination. This transaction did not constitute a fundamental change of relationship but one involving only the form of collateral held. A comparative schedule of loans predicated upon Transamerica Corporation stock and Bank of America, NT & SA stock is included under Transamerica Corporation and Subsidiaries Large Lines on Page 6 of this report.

EFFECT UPON THIS BANK, AND INFORMATION OF LOANS AND INVESTMENTS INVOLVING THE ABOVE CORPORATIONS - Continued

Further realignments of Transamerica Corporation controlled companies are detailed below. Successive corporate adjustments as well as further revisions of the debts owed by the corporations do not evidence any degree of elimination in so far as Bank of America, NT & SA is concerned. Notable are the intrusions of Western States Corporation and Pacific Coast Mortgage Company. These corporations, ownership of which is denied by both Bank of America, NT & SA and Transamerica Corporation, are not detailed because the bank has not or will not disclose credit files in spite of the fact that both companies are large borrowers. However, known assets of the companies include blocks of stock of the so-called Transamerica companies, and other securities long familiar in the several loan relationships between these corporations and the bank during past years.

Western States Corporation is a new company formed not long before its acquisition of Bankamerica Company, a securities dealing affiliate of Transamerica Corporation, formerly associated with the bank. Although the voting stock is said to be owned by outside interests, Capital Company (100% owned by Transamerica General Corporation and 100% controlled by Transamerica Corporation) owns all of the Class B stock which it carries on its books as an investment of $5 000 000.00. It is not reasonable to assume that this stock which constitutes over 95% of the capital structure of Western States Corporation is not a major interest controlled directly or indirectly by those responsible for it.

Likewise, Pacific Coast Mortgage Company which pledges as collateral to its $2 750 000.00 loan from the bank, stocks formerly owned by Transamerica Corporation or its subsidiaries, and stocks the principal assets underlying which are understood to be Transamerica Corporation capital stock does not escape the relationship concomitant with affiliation.

Inability on the part of the bank or the borrowers to liquidate loans that historically have been long related to the development of Transamerica Corporation and Bank of America, NT & SA, - or inability or unwillingness to devise or propose any plan of separation that presents any element of explicit intention to reduce the consolidated total at least raises the question of uniform control.

Further, the question is raised, irrespective of whether Transamerica Corporation is a holding company affiliate of the bank through ownership of a majority of shares of the bank, or through ownership of a majority of shares of the corporation by the shareholders of the bank, - that Transamerica Corporation by reason of its ownership of more than 544 697 shares, or more than 50% of the number of shares of stock voted for the election of directors of the bank at the annual meeting of shareholders thereof held January 11, 1938 - was on November 21, 1938 and is a holding company affiliate of the bank. (Banking Act of 1933, Sec. 2, as amended by the Banking Act of 1935, Sec. 301. Paragraph (c) sub paragraph (1).)

Under such definition the following are affiliates of Bank of America, NT & SA:

TRANSAMERICA CORPORATION AND AFFILIATES

Transamerica Corporation, parent corporation.

Bank of Sellwood, Portland, Oregon.
97% owned by Transamerica Corporation.

Central Bank, Oakland, California.
99.72% owned by Transamerica Corporation.
Formerly Bank of America (State). Also includes former Northern California Bank of Savings, Marysville, California, 95.85% owned by Transamerica General Corporation.

Clatsop County Bank, Seaside, Oregon.
94% owned by Transamerica Corporation.

Coast Company, San Francisco, California.
100% owned by Transamerica Corporation.
Presently inactive.

Coolidge & McClaine, Silverton, Oregon.
[illegible] owned by Transamerica Corporation.
A bank.

TRANSAMERICA CORPORATION AND AFFILIATES - Continued

Corporation of America, San Francisco, California.
99.88% owned by Transamerica Corporation.
Acts as trustee to hold notes, deeds of trust and other securities, principally items in liquidation. Also makes loans occasionally.
Acts as trustee under deeds of trust for Bank of America, NT & SA.

Farmers Bank of Carson Valley, Inc., Minden, Nevada.
82% owned by Transamerica Corporation.

First National Bank of Forest Grove, Forest Grove, California.
90% owned by Transamerica Corporation.

First National Bank of Garden Grove, Garden Grove, California.
50.40% owned by Transamerica Corporation.
As of November 21, and until December 26, 1938 this was a direct affiliate of Bank of America, NT & SA.

First National Bank of Nevada, Reno, Nevada.
98.63% owned by Transamerica Corporation.
Formerly First National Bank in Reno, Nevada.

First National Bank of Portland, Portland, Oregon.
57.45% owned by Transamerica Corporation.

First Securities Company, Portland, Oregon.
100% owned by First National Bank of Portland.

Transamerica General Corporation, San Francisco, California.
100% owned by Transamerica Corporation.
A holding company for various controlled subsidiaries of Transamerica Corporation.

Banca d'America e d'Italia, Milan, Italy.
89.65% owned by Transamerica General Corporation.
General Banking in Italy with a number of branches.

Societa Immobiliare Lombardi, Milan, Italy.
100% owned by Banca d'America e d'Italia.
Building financing and property holding. In liquidation.

Societa Edilizia Viareggina, Florence, Italy.
100% owned by Banca d'America e d'Italia.
Development company. Owns property, real and personal.

Ameritalia Travel Service S A I, Milan, Italy and San Francisco, California.
100% owned by Banca d'America e d'Italia.
Steamship and tourists agents.

Banca Immobiliare Italiana, Milan, Italy
100% owned by Banca d'America e d'Italia.
Purchase and sale of property, financial and banking operations.
Owns real estate investments in various Italian cities and towns.

Bankamerica Agricultural Credit Corporation, San Francisco, California.
100% owned by Transamerica General Corporation.
Makes loans on livestock security, also stocks and bonds. Operates in connection with other subsidiaries and relations of Transamerica Corporation. Formerly discounted its paper with Federal Intermediate Credit Bank but now discounts with Bank of America, NT & SA at 2%.

Bank of Lake, Lakeport, California.
68.14% owned by Transamerica General Corporation.

California Joint Stock Land Bank of San Francisco, San Francisco, California
100% owned by Transamerica General Corporation.
In liquidation. Previously made loans on improved farm properties.

California Lands, Inc., San Francisco, California.
100% owned by Transamerica General Corporation.
Owns, operates, leases and sells farm properties for its own account; for Bank of America, NT & SA and for related companies. Acquires foreclosed properties from Bank of America, NT & SA and Transamerica group companies.

TRANSAMERICA CORPORATION AND AFFILIATES - Continued

California Exploration Company, San Francisco, California
69.04% owned by California Lands, Inc.
Recently formed to develop and operate oil lands owned by parent and other related companies.

Capital Company, San Francisco, California
100% owned by Transamerica General Corporation.
Owns, operates, rents and sells urban properties for its own account, for Bank of America NT & SA and for related companies. Acquires foreclosed properties from Bank of America, NT & SA and Transamerica group companies.

Western Furniture Exchange, San Francisco, California
71.43% owned by Capital Company.
A six to ten story building containing the greatest amount of floor space in San Francisco. Used for furniture display and display of building and home arts and crafts. Erected on outer Market Street to work out a large real estate holding in which Capital Company had a one-half undivided interest acquired through foreclosure. Capital Company traded another nearby property which it had reacquired under foreclosure in order to obtain part of the remaining one-half undivided interest. See Transamerica Corporation and Subsidiaries Large Lines, Page 8, for details.

Coast Service Company, San Francisco, California.
100% owned by Transamerica General Corporation.
Places insurance of all kinds for Transamerica Corporation and its subsidiaries. In 1935 and 1936 there was a definite relation of its business to that of Bank of America, NT & SA. There are still a number of indications that Bank of America, NT & SA is a feeder of business.

Inter-America Corporation, San Francisco, California
100% owned by Transamerica General Corporation.
Formerly America & Security Corporation.
Formerly insurance brokerage and general agent, principally for automobile and casualty insurance. Formerly handled a volume of business for Bank of America, NT & SA. Present activity said to be largely restricted.

Inter-Continental Corporation, San Francisco, California, and Reno, Nevada.
100% owned by Transamerica General Corporation.
Buys and sells securities entirely for its own account. Originally organized in 1926 as the Commercial Holding Company, it was used to carry on the speculative market operations of Transamerica Corporation.

American Brokerage, Inc., San Francisco, California.
100% owned by Inter-Continental Corporation.
Investment brokers. Incorporated in 1930 to take over the active insurance business of Americommercial Corporation. Was owned then by Transamerica General Corporation. Changed to present status in 1933. Owns an associate membership in the San Francisco Stock Exchange.

Associated American Distributors, (Incorporated), San Francisco, California.
100% owned by Inter-Continental Corporation.
Incorporated in 1930 as Intercoast Sales Corporation. Name changed in 1932. Organized to distribute and redistribute capital stock of Transamerica Corporation placing it in the hands of "permanent investors." Upon organization of Western States Corporation the brokerage business of Associated American Distributors (Incorporated) was sold to it. The business was then consolidated with that of Bankamerica Company and the brokerage staff and sales force of the subject company also transferred to the latter. Present residual activities probably are of small scope.

General Metals Corporation, Oakland, California.
50.70% owned by Inter-Continental Corporation.
Manufactures malleable steel and iron casting.

TRANSAMERICA CORPORATION AND AFFILIATES - Continued

Occidental Life Insurance Company, Los Angeles, California.
100% owned by Transamerica General Corporation.
Writes life, Health and accident insurance.

Pacific National Fire Insurance Company, San Francisco, California.
100% owned by Transamerica General Corporation.
Underwrites fire and general insurance.

Transamerica Service Corporation, San Francisco, California.
100% owned by Transamerica Corporation.
Incorporated in 1930 as National Commercial Properties, Ltd., it later became Transamerica Realty Holding Company and then Realty Holding Company of America. In December, 1931 the present name was adopted. Originally it was a holding company for real estate owning subsidiaries of Transamerica Corporation. At present it acts as cash disbursing agent and handles accounting functions for Transamerica Corporation and its subsidiaries.

From here on:
is taken from
the Confidential
section.

EXPANSION AND ESTABLISHMENT OF BRANCHES BY BANK OF AMERICA N T & S A
FROM JANUARY 1932 THROUGH 1937

Since January 1, 1932 Bank of America N T & S A has purchased 121 banks, including branches of bank bought, and has acquired deposits totaling $119 661 468.00. The combined capital stock outstanding of these banks amounted to $8 063 775.00, and the surplus and undivided profits totaled $3 [illegible] 497.00, or an aggregate capital structure of $11 348 272.00. This entire banking capital structure was eliminated in the conversion of banks purchased. In addition the bank set up in its resources certain fixed assets as follows:

Banking Houses	2 324 791 00
Furniture & Fixtures	1 024 348 00
Other Real Estate Owned	728 794 00
TOTAL FIXED ASSETS	4 077 933 00

These assets were taken to offset a like amount of deposit liability assumed. In most cases Banking Houses and Furniture and Fixtures are carried presently in the bank's investment accounts. In the main the Other Real Estate Owned has been sold to Capital Company and/or California Lands, Inc., either for cash or under contracts for sale. The figures quoted were taken from balance sheets of banks purchased at the time of take over and no attempt has been made to reconcile the assets and capital account adjustments involved in the individual transactions. However, it is felt that the total picture is represented relatively as follows: While assuming deposit liability of $119 661 468 there was eliminated from existing banking capital $11 348 272.00, and Bank of America N T & S A increased its fixed assets to the extent of $4 077 933.00. This reflects adversely the capital ratio of the bank to the extent of the eliminated capital structure and the fixed asset investment in a combined total of $15 426 000.00. Detail of banks purchased and converted into branches is shown on Inserts 2, 3 and 4 following.

In addition to banks purchased the bank established 42 new branches in various locations without taking over the business of an existing bank or branch. The total of this expansion and branch establishment is 166 branches. In most cases these branches are presently in operation but in some cases the purchased banks were consolidated with existing branches, or the newly established branches were consolidated with other units of the bank. For detail of new branches established see Insert #5 following.

Concurrent with the acquired growth reflected above, the bank has had a remarkable normal growth of deposits, exceeding $300 000 000.00 since the beginning of this period in 1932. On Insert #6 following is shown a comparative schedule of Net Sound Capital Structure ratio to total deposits. This schedule reflects a high ratio, with the trend varying primarily upon the changing aggregate of classified assets in loss and doubtful classifications. Also, on Insert #[illegible] following is shown a comparative schedule of earnings, recoveries, losses, dividends paid, and net additions to profits. For the six year period covered Net Additions to Profits amounts to $3 725 629.00, after dividend payments of $26 800 000.00. It would appear from a study of these schedules, that in the expansion program, carried out above, negligible thought was given to increased capital structure for the bank in connection with the large increase of deposit liability, approximating $400 000 000.00. Moreover, in eliminating former existing banking capital, there has been no apparent attempt, along any defined conservative line to replace it during the planned expansion and normal growth of the bank.

To consider the entire banking structure of the State: There has been withdrawn from banking capital structure $11 348 272.00 of shareholders' investment. Deposits protected by this investment have been taken over by a bank showing inadequate capital structure in ratio to deposits, a matter of special significance for a bank state-wide in nature and spread extensively to all lesser parts of the State. While there is a certain insurance value to the spread of branch banking operations, nevertheless, a study of the bank's deposits will show a concentration in large metropolitan areas. The extent of deposit fluctuation is clearly revealed in the schedule referred to. This fluctuation must always be taken into consideration as a potential problem of banking. A normal buffer of sound capital structure should be maintained at all times to protect depositors and shareholders. Any policy of expansion that inherently weakens the banking structure of the State as a whole, should be revised.

CONSOLIDATED REPORT

No. of Bank 13044

BANK OF AMERICA N T & S A EMPLOYEES PROFIT SHARING PLAN

At a meeting of the Board of Directors held on July 12, 1938 a plan for employee profit sharing in earnings of the bank was outlined by the Chairman and adopted by resolution. Money was allocated under provisions of the plan to cover the period from December 1, 1937 to July 31, 1938. Similar plans with identical allocations of money were adopted at current board meetings for the months of August, September, October, November and December, 1938 and January, 1939. The trust agreement by and between the bank and the board of trustees appointed by the Board of Directors to represent employees which embodies provisions of the plan was executed on August 15, 1938.

The following names constitute membership of the Board of Trustees of the Profit Sharing Plan:

A P Giannini,	Chairman of the Board of Directors and Chairman of the General Executive Committee.
L M Giannini,	President of the bank.
W E Blauer,	Vice Chairman of the Board of Directors and Vice President.
A J Gock,	Vice Chairman of the Board of Directors and Vice President.
A Fenton,	Vice President and Personnel Director.
R G Smith,	Vice President and Cashier.

F T Risso, Vice President, not a member of the Board of Trustees, is Secretary.

Provisions of the plan are as follows: A sum of money equal to 7½% of all salaries up to $500.00 and an additional 5% of all salaries in excess of $500.00 is to be allocated from current earnings by the Board of Directors monthly, in their discretion. The money is credited to an account for each employee at the percentage stated, but held by the Board of Trustees. From time to time the Board buys shares of stock of the bank on the open market, at prevailing prices, using the funds on hand.

Periodically (at present, every three months) it allocates to the credit of each employee account as many whole shares as the dollar balance of each account will accommodate, using the average purchase price per share for all shares on hand.

Title to the stock remains vested in the Board of Trustees, but dividends on allocated shares are paid to the employees. After the Trustees have held the stock five full years, title and shares evidencing ownership become the property of the employees individually.

Under the trust agreement voting rights accompanying the stock remain vested in the Board of Trustees until such time as the stock ownership is transferred to employees. Each monthly plan is adopted separately by the Board of Directors, and each plan is subject to cancellation or revision with prior distribution privilege accorded to the trustees. Individual employees are allowed to make additional personal contributions to the plan in the discretion of the Board of Trustees.

As of examination date the Profit Sharing Plan owned 22 600 shares of stock of which about 18 600 shares had been allocated and about 4 000 shares unallocated. There was also a cash balance on hand of about $900.00.

In regard to the Bank of America NT & SA Employees Profit Sharing Plan, membership of the Board of Trustees raises the question whether the plan is designed to serve any other purpose than that embodied in the title. At this late date in the growth of a billion and a half dollar institution why should the membership of the Board of Trustees be composed principally of the Chairman of the Board of Directors of the bank and four of his chief executives?

Would not the various duties of these people as evidenced by their various committee memberships and chairmanships, both within the bank and in some of Transamerica Corporation's subsidiaries - indicate that some others among the bank's huge official roll could be entrusted with the particular duties entailed by the plan?

At present the amount of money involved is about $1 200 000. a year. This sum could find valuable use if applied to the purchase of shares offered for sale by the public. At $39.00 a share, which is about the mean price since distribution of the shares by Transamerica Corporation in July, 1937, it would mean a buying power of about 30 000 shares a year. On the basis of available information this buying power is adequate to maintain a market, that is, a purchaser for all shares offered.

CONSOLIDATED REPORT

No. of Bank [illegible]

GENERAL REMARKS AS TO AFFILIATED ORGANIZATION

(Use only when any affiliation exists)

1. If bank has a holding company affiliate, state whether general voting permit has been issued and is in force, and if any, [illegible] in connection with the issuance thereof have been complied with insofar as they relate to this bank. If general voting permit [illegible] comment. The question of holding company affiliate relationship is raised in the [illegible]. In spite of the contention by the bank and Transamerica Corporation that no relationship [illegible] conclusion appears to be inescapable that Transamerica Corporation is an holding company affiliate by reason of owning more than 50% of the total shares voted at the last annual meeting for election of directors of the bank held on January 11, 1938.

2. Relationship with holding company affiliate:

(a) To what extent and in what manner does [illegible] affiliate control, directly or indirectly, the credit policies of the bank?

See 1 above. Former holding company affiliate (Transamerica Corporation) affected the credit policies of the bank to the extent of requirements for its own activities. There has been little change in these credits which are shown in this report under Transamerica Corporation and Subsidiaries Large Lines, Page 6.

(b) To what extent and in what manner does the holding company affiliate control, directly or indirectly, the investment policies of the bank?

There appears to be no undue control of investment policies of the bank except in so far as the Chairman of the Board chooses to dominate the scene.

(c) Comment as to the nature and extent of other types of control exercised and services rendered directly or indirectly by the holding company affiliate, such as audits, or control of operating policies or personnel matters.

Other types of control and services rendered appear to have been nominal. In effect, the bank exercises predominating control and renders services for various relations. See General Remarks.

3. Inter-affiliate relations:

(a) To what extent has this bank purchased securities from, or sold securities to, affiliated organizations? Comment as to the effect on this bank, with special reference to responsibility for any unsound practices. Transactions involving purchase of securities between the bank and its relations (affiliates, if so ruled) have been nominal. In the past the bank took certain stocks in settlement for a self-insurance fund carried by Transamerica General Holding Co. These are shown in the bond account as illegal purchases. Under criticism is the acquisition of 56 600 shares of National City Bank of New York detailed in Transamerica Corporation and Subsidiaries, Large Lines, Page 6.

(b) Is there any evidence of the shifting of loans and investments between this bank and affiliated organizations? Comment as to the effect on this bank, with special reference to responsibility for any unsound practices.

In the past there has been evidence of the shifting of loans between the bank and its affiliates. These practices are reflected in the bank at present under Transamerica Corporation and subsidiaries Large Lines, Page 6, and Other Real Estate Owned, Page 14.

(c) To what extent has this bank deposited funds in, or accepted deposits of funds from, affiliated organizations for the purpose of inflating the cash resources and deposits of any of the banks involved?

There appears to be no evidence of undue activity in placing of deposits to inflate the resources of the banks involved. In general, however, the banks within the so called Transamerica Corporation group carry substantial reciprocal balances with each other.

(d) State amounts, if any, paid by this bank, directly or indirectly, for services rendered by any affiliated organization and comment upon the reasonableness of such payments.

There appears to be no evidence of unreasonable fees paid by the bank to relations for services rendered.

4. Other relations with affiliated organizations:

Comment upon the effect on this bank of its relations with the holding company affiliate and with other affiliated organizations.

The relation with former (or present) affiliated organizations as it affects the asset condition of the bank is fully commented upon under Transamerica Corporation and Subsidiaries Large Lines, Page 6. The bank as a major earnings contributor of Transamerica Corporation has a direct effect upon the dividend policy of the corporation and vice versa.

5. Termination of securities affiliate:

If, as required by Section 20 of the Banking Act of 1933, as amended, the bank has divorced itself from any former securities affiliate, the affairs of which have not been finally liquidated, comment fully on the status of such former securities affiliate and the relations between it and the bank.

When Transamerica Corporation became a direct affiliate of the Bank on July 31, 1937, its 100% owned subsidiary Bankamerica Company became a securities affiliate of the bank. The affiliation continued until December 27, 1937, when Transamerica Corporation sold the company to Western States Corporation, a Nevada corporation. Transamerica Corporation owns through its subsidiary, Capital Company all (10 000 shares) of the "B" non-voting stock of Western States Corporation, which has (fifty times the par value of the voting stock.

6. [illegible] of affiliates:

[illegible] of the examinations made of affiliates as required by Section 9 of the Federal Reserve Act, as amended, and comment as to the reasons why [illegible]; affiliates were not examined. It is claimed that Transamerica Corporation is no longer an affiliate of Bank of America NT & SA. See affidavit in support on Page 20, Insert 2. However, see Page 20 in regard to present relationship, and see comment in Confidential Section. There is no dispute concerning holding company affiliation for First National Bank of Portland, Oregon; First National Bank of Nevada, Reno, Nevada; First National Bank of Forest Grove, California, and, since examination, First National Bank, Garden Grove, California. Decision covering a new examination of the holding company affiliate is still pending.

TRANSAMERICA CORPORATION AND ITS AFFILIATION WITH BANK OF AMERICA N T & S A

CHANGES IN AFFILIATE RELATIONSHIP:

A former Inter-America Corporation (not the one shown on Page 20, Insert 7 of this report) was at one time a holding company affiliate of Bank of America N T & S A. On July 1, 1937 the net assets of the corporation were transferred by indenture to Transamerica Corporation, the parent company, owning 100% control of this subsidiary. After this transaction Transamerica Corporation became the direct holding company affiliate of Bank of America NT & SA, owning 99.65% of the bank's outstanding capital stock.

On May 14, 1937 the directors of Transamerica Corporation recommended, and on July 10, 1937 the shareholders approved distribution to shareholders of approximately 58% of capital stock of Bank of America NT & SA in the ration of ten shares of $12.50 par value for each one hundred shares of Transamerica Corporation's no par value stock. Accordingly, on July 31, 1937 shareholders of record July 15, 1937 received an asset dividend of 2 297 640 shares of Bank of America NT & SA capital stock. The distribution left Transamerica Corporation owning approximately 42% of the bank's outstanding capital stock, and removed it from its former position as holding company affiliate under Section 2(c) of the Banking Act of 1933, as amended.

Transamerica Corporation then became a direct affiliate of Bank of America NT & SA under provisions of Section 2(b), sub-section 2 of the Banking Act of 1933 because 58% of Bank of America NT & SA shareholders now owned 100% of Transamerica Corporation's outstanding capital stock. This was a fact not anticipated by the management, and for some time the management continued to deny the affiliation.

It was claimed by the bank that after the examination of August 31, 1937 sufficient transfer of shares of both Transamerica Corporation and Bank of America NT & SA had occurred so that affiliation did not exist. To support this contention the bank has filed an affidavit stating that on April 26, 1938 (examination date) the records of Bank of America NT & SA disclose that shareholders owning more than 2 000 001 shares of stock in the bank are not shareholders of record of Transamerica Corporation. A copy of this affidavit is included in this report under Affiliates, Page 20. However, a check with the bank's stock transfer department indicates that the examination of its records was made in March, 1938, prior to the date of our examination. It was believed that such change of stock ownership would eliminate Transamerica Corporation and its subsidiaries as affiliates of Bank of America NT & SA under the provisions of the Banking Act of 1933, as amended.

The conclusion appears inescapable, however, that Transamerica Corporation is in fact an holding company affiliate of Bank of America NT & SA under provisions of the Banking Act of 1933, Section 2 as amended by the Banking Act of 1935, Section 301, Paragraph (c) sub-paragraph (1) by reason of the fact that on the date of election of directors at the annual meeting, January 11, 1938 it owned more than 544 697 shares, or more than 50% of the number of shares voted for the election of directors, - and is an holding company affiliate.

At the time the bank believed it had achieved elimination of affiliation certain asset adjustments on borrowings of the corporation from the bank became necessary to segregate more clearly these interests. These were; elimination of Inter-America Corporation Contracts and substitution therefor of Guaranteed Loans, a transaction by which the bank repurchased its previously charged off assets; an investment in 56 600 shares of stock of the National City Bank of New York, both items under criticism in this report. Transamerica Corporation's contract for purchase of "Future and Former Bank Premises" was cancelled. This was effected by having Merchants National Realty Corporation (a 100% bank owned affiliate) purchase the properties from Capital Company. Details are shown on Page 14 of this report.

STATUS OF AFFILIATE RELATIONSHIP:

More recent corporate adjustments involving the so called Transamerica group as well as further revisions of the debts owed to the bank by these companies do not evidence any degree of elimination as far as the bank is concerned. Two important additions that fit directly into the structure of Transamerica Corporation and Subsidiaries Large Lines are Pacific Coast Mortgage Company and Western States Corporation. Why the bank has loaned these corporations large amounts secured in part by well known former and present Transamerica Corporation investments, and does not have or has refused to give credit information to support these loans, and why it denies affiliation or relationship while at the same time offering no proof or declining to give any proof of its contentions, - are questions that can be answered only by the management.

Many facts and apparent facts indicate that despite any problems of law practical affiliation continues:

(1) Management of both Bank of America NT & SA and Transamerica Corporation and its subsidiaries has alway been dominated by Mr. A P Giannini whose activities are directed toward restoring both to a position of greater prominence with the share holding public. For this purpose

Continued -

TRANSAMERICA CORPORATION AND ITS AFFILIATION WITH BANK OF AMERICA N T & S A - Continued

STATUS OF AFFILIATE RELATIONSHIP - Continued

he has always used both the bank and the corporation jointly and interchangeably. Since winning the proxy fight, and even more noticeable recently, Mr. Giannini has emphasized to the public over and over again the great growth of these corporations since he reassumed control. Any difficulties or problems he admits he ascribes to the previous management, although it is demonstrable that all of today's difficulties had their inception prior to the interlude of other management. In spite of Mr. Giannini it appears that the interim management eliminated $500 000 [illegible] of water from Transamerica Corporation and kept it alive long after Mr. Giannini had depleted its cash resources by supporting its stock in the market crash of 1929, so that by the time public psychology followed Mr. Giannini's readvent he was able to bolster the corporation with loans and with increased earnings of the bank. During approximately one half the period of the interim management Mr. L M Giannini was President of Transamerica Corporation. During the approximate remainder of the period Mr. James A. Bacigalupi, former President of the bank's predecessor, Bank of Italy NT & SA was President of Transamerica Corporation. At the same time Mr. A.J. Mount, for years Mr. Giannini's Senior Vice President of Bank of Italy NT & SA was President of Bank of America NT & SA.

(2) All personnel management for the bank and the various corporations has been under the direct supervision of the bank's personnel director. Employees have been shifted from the bank to the corporations and back to the bank with no break in their employment record. Until very recently they have participated in all pension and bonus plans of the bank for its employees.

(3) Loans to subsidiaries of Transamerica Corporation for the various activities of the corporation reflect the needs as influenced by the management. In most cases they are predicated upon the principle of all for one and one for all.

(4) Several of the corporation's subsidiaries would appear to be for all practical purposes mere operating departments of the bank, viz: Bankamerica Agricultural Credit Corporation as a livestock loaning department; Capital Company and California Lands, Inc. as Other Real Estate and Bank Premises selling and management departments, and Coast Service Company for management of the bank's insurance problems.

(5) The bank continues to operate as a feeder of business for both Occidental Life Insurance Company and Pacific National Fire Insurance Company. In fact, on one occasion a representative of the former company came into this office and stated that he represented the Occidental Life Department of the Bank of America NT & SA.

(6) The corporation and its subsidiaries are used variously as the media for expansion of Bank of America NT & SA and other Transamerica Corporation banks through the buying of independent banks. Evidence of this is contained in the collateral securing loans to or held by subsidiaries.

(7) Services are rendered by the bank for the corporations and their activities. A pro rata charge is usually made for the services but the bank is operating supervisor of all such functions of common interest. Inspection and audit of all companies is made by the Auditing and Inspection Department of the bank. It is understood that Mr. L.M. Giannini now thinks it advisable for the department to secure from the boards of directors of other banks and corporations visited a resolution requesting Bank of America NT & SA to loan (for a fee) its auditors for the purpose of conducting an examination. No request was made by and no notice was given to Occidental Life Insurance Company and Pacific National Fire Insurance Company at the time of last examinations. Occidental Life Insurance Company's Auditor, a dollar a year employee, is the Bank of America NT & SA inspector in charge of the Los Angeles Headquarters office, of the bank. On the other hand, aside from its usual painstaking record audit of the Accounting Department the Auditing and Inspection Department exercises no control or check upon Earnings and Dividends Reports, Comptroller's Call Reports or other data furnished to supervisory agencies. Such items are not even submitted for check, the Cashier's Department assuming full responsibility. The best information available is to the effect that the auditor realizes fully the responsibilities involved but actually has not authority to act. As a practical matter he acts not under the authority of the Board of Directors but under the authority of the President.

All stationery and supplies are controlled by the bank's operating departments. [illegible] Transamerica Corporation's dividend checks is handled by a department of the [illegible] ment is made to pay these checks through its correspondent, National City Bank of New [illegible] own branches without deposit by the corporation of the full amount of its dividend.

(8) With the first 193[illegible] dividend payment Transamerica Corporation stated in a [illegible] shareholders that it was in a position to consider exchange of shares for those [illegible] America NT & SA and asked shareholders to express their wishes.

TRANSAMERICA CORPORATION AND ITS AFFILIATION WITH BANK OF AMERICA N T & S A - Continued

STATUS OF AFFILIATE RELATIONSHIP - Continued

(9) Bankamerica Company was eliminated as a securities dealing affiliate through sale by Transamerica General Corporation to Western States Corporation, the so-called "outside interests." Although the voting stock of Western States Corporation is held by interests the identity of which has not been published, such stock represents only 1/25 of the amount of the investment in the corporation by Capital Company a 100% owned subsidiary of Transamerica Corporation. On November 29, 1938 Western States Corporation sold Bankamerica Company to Pacific Coast Mortgage Company for an unrevealed consideration. The new owner holds a number of former investments of Transamerica Corporation and its subsidiaries. Some of the former borrowings of A.O. Stewart, now President of Pacific Coast Mortgage Company are included under borrowings of the latter in this report. See Transamerica Corporation and Subsidiaries Large Lines, Page 8.

Bankamerica Company continues to operate through branches of the bank, acting as agent for branch customers in executing sales and purchases, the while using bank stationery and mail facilities. It bills branches direct for purchases involved, the branches carrying items in suspense until collected. Until a few days after publication of certain charges by Securities and Exchange Commission, Bankamerica Company's complete telephone service was part of that of the bank, listed under the bank's number and handled by bank operators on the bank payroll.

(10) The bank and the corporation have always received commonplace acceptance in the mind of the public as the "Financial Empire" dominated by Mr. A.P. Giannini. There has always been complete acceptance of this domination within the corporate group. There is no indication that Mr. Giannini's highest executives have ever attempted to oppose his will or to qualify his dominating judgment. There is evidence that some who did were not kept long on the payroll. It is understood that off the record a number of executives disagree, but advisedly they say nothing.

At the same time it is true that Mr. A.P. Giannini probably realizes his advancing years. It has been common knowledge that for some time he has sought to place Mr. L.M. Giannini more in the forefront, an effort made before without success. However, the effort only emphasizes the degree of domination and a desire for its continuation.

IN GENERAL

The policy of this examination has been practically the same as that followed previously. All II classifications, to which exceptions were taken, and all III and IV classifications were reviewed with the General Finance Committee responsible for all credits in the entire system. All classifications shown in the Branch reports as recapitulated in this report have been concurred in. The assets carried in the Administration Department of San Francisco were reviewed with Vice President and Cashier Russell G. Smith. The classification of those assets was agreed upon including the $3,200,000.00 of untaken depreciation in Banking Houses, Furniture & Fixtures which has been classified as III pending such time as a complete analysis can be made of these assets and an actual depreciation loss figure developed.

The conferences held in your office during the month of December with Messrs. L.M. Giannini, W.E. Blauer and Russell G. Smith have had certain beneficial results, the most noteworthy being the changed attitude of the management in admitting and charging off estimated losses. Practically all of the losses estimated in this report are reported as having been charged off with the exception of those estimated in connection with the bond write-up and the large block of National City Bank stock illegally purchased from Transamerica Corporation, carried on the books under an "Option to Purchase". In this connection Vice President and Cashier Russell G. Smith advised that he had received instructions from President L.M. Giannini to charge off the remaining portion of the bond write-up but would not do so until he had received and analysed this entire report. He further stated that the loss on the National City Bank stock would be charged off in the event the bank was unsuccessful in obtaining an additional pledge of collateral together with a binding repurchase agreement from Transamerica Corporation covering this investment.

Fundamentally, however, there has been no change in attitude on the part of the bank's management. The correction subscribed to appears to be limited to only those specific items classified as losses in reports of examination. The major problems centering around the frozen concentrations; the acquisition of illegal assets, and the dissipation of earnings through excessive dividend payments have inspired no change in policies for the strengthening of the bank. The management seems inclined to follow its past attitude of working out those problems in its own time and manner. This situation makes the need for continued strict examinations and supervision imperative until the desire for correction and cooperation emanates from within the bank and its management.

In connection with the strengthening of the bank's sound capital structure on or before June 30, 1939, Vice President and Cashier Russell G. Smith advised that to his knowledge no steps have been taken in that direction. He further stated that their people in Washington had advised that the Government Agencies interested in this corrective step have recommended against such action at this time. In the same conversation he would not commit himself as to any probable change in the present dividend policy of the bank. Since these subjects are so closely related consideration should be given to notifying the Board of Directors regarding future action prior to the March 14, 1939 meeting of the Board, at which meeting the dividend, if any, will be declared.

TREASURY DEPARTMENT
Comptroller of the Currency—Examiner

CONSOLIDATED REPORT

No. of Bank 13044

GENERAL REMARKS

Examiner should present the bank's general situation by making concise comments under each of the following headings: 1. Condition of Bank; 2. Earnings; 3. Management; 4. Ownership; 5. Future Prospects. Such additional comments should be furnished regarding the existence of any unsatisfactory policies or conditions, together with appropriate recommendations, as deemed inadvisable to include in report proper. Particularly should the progress shown in improving an unsatisfactory condition or in relieving objections be commented upon.

CONDITION OF BANK

The unsatisfactory asset condition of this bank has been commented upon in detail throughout the open section of this report. The major problems lie in the concentrations and the methods resorted to by the management in dealing with them. In order to get a clearer conception of the magnitude of the problems and the manner in which they are being handled, the comments contained under the Large Lines schedule on Page-6, and the 32 inserts thereto, and the joint schedule embodying Other Real Estate Owned, Banking Houses and Furniture & Fixtures accounts on Page-14, and the 90 inserts thereto, should be read in conjunction with the detailed criticisms on Page-7, and the 22 inserts thereto.

EARNINGS

There is no criticism of the earning capacity of the bank and net earnings from operations continue to show a normal increase in keeping with the deposit growth. The bank has the capacity to earn itself out of its present difficulties over a five year period, if all earnings are used for this purpose. The criticism lies in the fact that as earnings have increased they have been offset by increased dividend payments to shareholders. So large a proportion of the earnings are being dissipated in this manner that the bank has been forced to rely on unrealized recoveries and profits from sale of securities to increase its net profits and effect the removal of losses. The remaining net additions to profits after the foregoing are too small to bring about any substantial correction of the asset condition and the undercapitalized position of the bank.

MANAGEMENT

The management is completely dominated by Mr. A. P. Giannini, Chairman of the Board, and a small group of bank officers who surround him through their ability to please his desires and assist him in satisfying his ambitions, which appear to be the restoration of Transamerica Corporation to its former position of promotional prominence in the public's mind. The success of these ambitions are symbolic of his personal prestige. The various practices resorted to by this particular management group are considered unsound and it has been so stated in the open section of this report.

OWNERSHIP

The largest single shareholding interest is Transamerica Corporation and its subsidiaries, owning and controlling 1,781,250 shares out of the 4,000,000 shares outstanding, as shown on Page B, Inserts 7 and 8, of this section of the report. From a practical point of view, Transamerica Corporation continues as an affiliate of the bank in its various operations as set forth in detail under the "General Remarks as to Affiliated Organizations" on Page B-1, Inserts 1 to 3 inclusive.

FUTURE PROSPECTS

Future prospects are dependent upon the willingness of the management to recognize and follow sound banking practices and principles as opposed to the present opportunistic policies of expansion and the capitalization of unrealized profits for the promotion of Transamerica Corporation and its allied corporate enterprises.

cont'd.

L. H. Sedlacek
Examiner.

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Frederick D. Wright
Chief Examiner.

Per: [illegible signature]

To the COMPTROLLER OF THE CURRENCY,
Washington, D. C.

Note.—Copies of all important letters written by this office to the bank will be forwarded to the examiner [illegible] [illegible] will have the opportunity of being cognizant of them.