The original documents are located in Box B114, folder “United States National Bank, San Diego” of the Arthur F. Burns Papers at the Gerald R. Ford Presidential Library.

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**FILE LOCATION**

Arthur Burns Papers
Federal Reserve Board Subject File, Box B114
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**GENERAL SERVICES ADMINISTRATION**

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On June 5, 1973, the problems of this bank were discussed with Governor Bucher and Mr. O'Connell. During the day Mr. O'Connell and I spoke with four representatives of the Federal Reserve Bank - Senior Vice President Kelly, Vice President Jamison, Vice President Reilly, and Associate General Counsel Cooper. Mr. Jamison is in charge of examinations and discount while Mr. Reilly is general counsel. Later in the day Mr. O'Connell and I spoke with First Deputy Comptroller Watson.

The purpose of the call to the San Francisco group was to impress on them the need to keep a careful detailed and precise record if the Federal Reserve Bank extended credit to United States National. We particularly stressed the need for perfecting liens on collateral and discussed the possibility of obtaining an affidavit from the bank that the collateral posted to secure loans was free, clear, and available for pledging.

The Reserve Bank discussed the type of collateral available. As mentioned in my memorandum of June 4 there is available in the Treasury Tax and Loan Account $10 million of excess collateral which is in the form of U.S. Government bonds. It was mentioned that we could not require the bank to leave these securities with us as possible collateral should they wish to withdraw them. But in the event they asked to have the collateral
The loans available for collateral were discussed, and the Reserve Bank said that if necessary, as many as 25 examiners could be detailed to consider collateral. It was agreed that loans to C. Arnholt Smith and his interests would be accepted as collateral only after other collateral is exhausted.

When question was raised about a visit to the bank by Federal Reserve examiners, Mr. O'Connell and I instructed the Reserve Bank personnel that they were not to go into the bank without receiving prior authorization from the Board. It is most unlikely that there would be any justification for our examining any aspects of the bank's operations.

After that discussion Mr. O'Connell and I talked with First Deputy Comptroller Watson who is going to provide for us a copy of the cease and desist order issued against the bank and the debenture agreements representing the $15 million of subordinated debt carried in the bank's structure. Most, if not all of the debentures, are owned by Franklin National Bank of New York. Mr. O'Connell and I told Mr. Watson we were doing some preliminary planning in the event the System has to advance money to the bank. We indicated to Mr. Watson our desire to have a complete record and mentioned some problems both our agencies had had at the time of the San Francisco National Bank failure. Mr. O'Connell asked Mr. Watson if he would call Mr. Larson, Regional Administrator in
San Francisco, and request Mr. Larson to provide any information that might be necessary for us to have in connection with our discount function. Mr. Watson said he would do that.

Mr. Watson mentioned that the last time they had reviewed the liquidity of this bank it had about $120 million of liquid assets over reserve requirements. He also said that there is the possibility of a merger if the situation gets extremely serious. The merger partner might be Crocker National Bank and it is estimated that the price of United States National should be about $100 million. It was mentioned that if necessary the purchase price could be escrowed and Crocker given a reasonable time in which to work out bad loans and charge them to the escrow account.

It was agreed by all concerned that we will keep each other informed of any material fact.

Distribution: Messrs. Holland
Melnicoff
Solomon
O'Connell
Smith
Partee
Ring
On June 11, 1973, Vice President Jamison called twice to report developments about this bank. In the first call he said that everything appeared normal in that there was no deposit run-off and the reserve account excess is now at $51 million. It is likely the bank had run down the reserve account on the last day of the accounting period in order to sell the excess in the Federal Funds market.

Late that afternoon Mr. Jamison again called to state that the bank had asked that $10 million of excess collateral in the Treasury Tax and Loan Account previously referred to is to be transferred to collateral to secure borrowings from the Federal Reserve Bank. United States National informed the Los Angeles office that it expects to borrow $10 million on June 12.

I told Mr. Jamison he should contact Regional Administrator Larsen to inform him of this borrowing and also to ask Mr. Larsen if the bank was solvent.

Mr. Jamison said that a meeting with bank representatives was scheduled for later this week. I asked him if the meeting could be scheduled earlier this week, and he thinks it can be scheduled for June 13.
At the meeting the bank's representatives will be asked what they expect to happen and what is the worse they think can happen. They will also be asked how they propose to deal with the problem.

On the morning of June 12 I called First Deputy Comptroller Watson to inform him of developments. At that time he told me that representatives from the Comptroller's department had entered the bank as of the close of business May 31, 1973, to check the schedule of maturing CD's. We will be given a copy.

Mr. Watson also confirmed Mr. Jamison's comment that Bank of America has discontinued selling Federal Funds to United States National and that Crocker National proposes to do likewise. President Peacock of Crocker recently discussed with Mr. Watson the possibility of merger. However, Mr. Peacock does not know how serious the problem is. Once he does know he may lose interest.

Distribution: Messrs. Melnicoff Solomon O'Connell Smith Partee Ring
On June 15, Governor Bucher, Mr. O'Connell and I talked with First Vice President John Williams and Vice Presidents Jamison and Reilly of the Federal Reserve Bank of San Francisco. They mentioned that the executive committee of the Federal Reserve Bank's board of directors had indicated concern about requiring Regional Administrator Larsen to certify by letter that the bank is solvent. They wondered if a letter was necessary and asked why we could not rely on his oral statement. It was stated that if Mr. Larsen is willing to state orally the bank is solvent, he should not object to confirming this view in writing. Mr. Williams stated that the directors of the Federal Reserve Bank want the System to loan money to United States National citing as reasons the importance of the bank in local economy and the impact its failure would have on the San Diego and even the California economy.

We were informed that representatives of Crocker National Bank are meeting with representatives of United States National on June 15. It is understood that United States National wants assurance from Crocker that money, presumably through the medium of Federal Funds, will be made available. The reason for the meeting is to consider the possibility of Crocker merging with United States National. Crocker is known to have been interested for sometime and from a competitive view might be favored as it is not so heavily represented in the San Diego area as are other large banks which might be merger possibilities.
Despite our understanding that the bank would not submit as possible collateral loans of any interests of Mr. Smith an undetermined amount represent such obligors. This is not regarded as acceptable collateral since it is impossible to appraise it. Mr. Williams noted that the bank has a large volume of installment loans, and it was agreed that where such loans were reasonably made and are "aged" it would probably be reasonable to loan 90 per cent of face. The Reserve Bank plans to appraise this collateral over the weekend. Interestingly, C. Arnhold Smith was with the bank's representative when the loan collateral was delivered to the Los Angeles branch on June 14.

We emphasized the Board's strong feeling that prior to lending there should be a written statement from the Comptroller's representative regarding solvency and the loans pledged as collateral should have been reviewed. The suggestion that the installment loans be verified, on a sample basis, was accepted. It was stated categorically by Reserve Bank staff that no advance to the bank would be made without prior checking or notification to the Board.

The Federal Reserve Bank has retained as outside counsel Judge Elderkin of the Brobeck firm which earlier represented the Reserve Bank. General Counsel O'Connell is in San Francisco today (June 18) to discuss various legal aspects which can be anticipated in this situation.

Distribution: Messrs. Melnicoff Solomon O'Connell Partee Ring Smith Ryan
GERALD R. FORD LIBRARY

This form marks the file location of item number 1
as listed on the pink form (GSA Form 7122, Withdrawal Sheet)
at the front of the folder.
June 19, 1973

Attention: Governor Jeffrey M. Bucher

Gentlemen:

In reply to your request for a statement concerning the condition of the United States National Bank of San Diego, California, as of the close of the last full examination of the subject bank which terminated on March 22, 1973, the bank was found to have potentially severe credit problems but was adjudged to be solvent. To date, we have not received any information which would materially alter this conclusion. If there is any significant change in the condition of the bank, this Office will promptly advise you.

Sincerely,

[Signature]

J. T. Watson
Acting Comptroller of the Currency
On June 22, 1973, Governor Bucher, Mr. O'Connell and I visited with representatives of the Federal Deposit Insurance Corporation and the Comptroller of the Currency.

During the morning of that day the three of us met with FDIC Chairman Wille, General Counsel Bransilver and Mr. Roddy, Chief of the Examination Department. We informed them of the current status of the U.S. National Bank and of our intent that they be kept currently informed about the bank. To this end we told them that we would ask the Federal Reserve Bank of San Francisco to arrange for weekly meetings to which their local representative would be invited. Moreover, should any important developments occur between such meetings, their local representative would be informed promptly.

The liability of the FDIC was specifically discussed. Mr. Wille noted that the bank recently had about $900 million in deposits. Of this $300 million was insured by FDIC, and $300 million represented uninsured and unsecured money.

We discussed the possibility of a merger, and noted that from a competitive view Crocker National, Wells Fargo, and Bank of California, N.A., are the most likely candidates. As the Board has been informed.
Crocker is interested, but only if such a merger can be on an emergency basis.

During the afternoon the three of us met with Acting Comptroller of the Currency Watson and General Counsel Bloom. We informed them that the Board felt strongly that an examiner should be in the bank at all times. Mr. Watson said that they now have an examiner visiting the bank frequently, but were concerned with placing an examiner in the bank full-time for two reasons. The first is that this might increase concern on the part of the banking community if it became known; the second is that the Comptroller's Office might be accused of having participated in management if the bank were ultimately to fail. When these possibilities were discussed, Mr. Bloom said that at a recent meeting in California much of the talk had been about the problems of U.S. National. As the bank's problems seem well known, we suggested that a full-time examiner in the bank might not have the unfavorable results envisioned.

We then indicated our very grave concern with what we construed to be Mr. Smith's continuing to participate in management. We mentioned that he had been one of those delivering collateral to the Federal Reserve Bank and that he was negotiating sales of blocks of installment loans. The question was raised as to whether or not this might not violate the terms of the cease-and-desist order. The Comptroller's representatives stated that in their view Mr. Smith had to act as consultant in connection
with liquidation of the Westgate and BCIC lines since he was the only one really familiar with the credits. We made it very clear that in our view Mr. Smith's relations with the bank should be specifically limited to acting in this capacity.

Messrs. Watson and Bloom were told of the weekly meetings, and they said Mr. Larsen would be glad to participate. When we left it was agreed we would keep each other fully informed of any important developments.
On June 26, 1973, I talked with First Vice President Williams and Vice Presidents Jamison and Reilly about this matter.

The U.S. National Bank continues to bring in collateral. The Reserve Bank estimates that it could now loan $40,350,000 on the collateral thus far analyzed.

When I asked what would be the source of funds to repay any borrowing, the following information was given.

- $13 million - sale of foreign time-deposit open accounts.
- A $1 million time account was recently sold at a 9-1/16 per cent discount.
- $7 million - sale of loans to United California Bank.
- $5 million - sale of loans to Harris Trust Company.
- $5 million - sale of loans to Union Bank.
- $10 million - sale of loans to First National City Bank.
- $30 million - sale of additional consumer credit loans.
- $87 million - sale of Westgate properties.

Total - $157 million.

The bank had earlier thought of reducing public funds; however, it has reconsidered as such reduction would necessitate sale of securities pledged to secure the funds. Many of these securities are said to yield
about 4 per cent and would thus have to be sold at big discounts.
There is just a little bit of concern that in view of these increasing
yields and declining bond prices, some public treasurers will demand
additional collateral in order that the market value of pledged securities
will not be less than the deposits.

Messrs. Thomas and Rafanello (a very competent credit man
borrowed from the Federal Reserve Bank of New York) are appraising
collateral which the bank is continuing to bring in. Moreover, the
Federal Reserve Bank has employed an experienced examiner to review
collateral. The Reserve Bank thought it advisable to have someone with
a different point of view analyze the pledged loans.

Yesterday U.S. National was borrowing $54,300,000 in the Federal
Funds market. If forced, it could probably continue to obtain funds from
this source; however, the Reserve Bank is concerned that forcing
U.S. National to borrow too heavily in the funds market might result in
drying up that source of money. To this end representatives of the
Reserve Bank think it desirable that the bank lend $10-$20 million prob-
ably today to take off some of the pressure. Mr. Jamison said he will
let me know if they get a request from U.S. National today and what is
the decision of the Reserve Bank.
Office Correspondence

To: Board of Governors
From: Brenton C. Leavitt

Date: July 2, 1973
Subject: United States National Bank (USN)
San Diego, California.

VERY CONFIDENTIAL (F.R.)

On June 28, 1973, Messrs. Balles, Williams, Reilly, Jamison, and Thomas of the Federal Reserve Bank and special counsel Elderkin met with Chairman Woltman and Senior Vice President Swinney of USN. Also in attendance were Messrs. Glover and Walt Smith representing the Comptroller of the Currency and Federal Deposit Insurance Corporation.

The meeting began with President Balles stating the ground rules under which credit would be advanced. We will grant no line of credit as requested; representatives of the FDIC and Comptroller's office will be kept informed and will participate in at least weekly meetings; no actions should be taken that will be in violation of the Cease and Desist Order.

At the present time collateral available will support a maximum borrowing of about $47 million (includes the $10 million of United States bonds on which we have advanced $10 million). The amount of collateral on hand is not increasing. This is a matter of concern for it may indicate few loans acceptable for even 10(b) collateral. Bank representatives stated they hope to be able to provide about $12 million collateral the week of July 2.

Arrangements have been made for daily contact between the Reserve Bank and borrower so that the bank's current position can be known. Also, on each Tuesday the Reserve Bank is to get a weekly forecast of needs of the coming week.
The Reserve Bank is pressing USN for its plans on liquidating the indebtedness of BCIC. As information is developed this huge concentration of credit becomes of even greater concern. It had earlier been thought that BCIC loan totals (including letters of credit) were in the area of $250 million. Bank officials recently stated that an additional $50 million in loans was also related making the total concentration something over $300 million. It is also understood that some financing of BCIC has been with Eurodollars through USN's Nassau branch.

The Reserve Bank was informed by officials of USN that they were thinking of advancing $4 million to a BCIC subsidiary to construct a tuna boat. This advance was being made pursuant to an "oral commitment." Bank officials were informed that this was regarded as an improper use of Federal Reserve credit and quite likely a violation of the Cease and Desist Order which refers to "legal commitments." Legal commitments are not usually of an oral nature and this one is particularly suspect as it is understood the commitment was made solely by C. Arnholt Smith.

The Reserve Bank has asked for a detailed list of commitments indicating those made for a fee, those made in writing, and those orally committed.

Statements of USN officials about liquidation of BCIC indebtedness thus far seem based more on hope than reality. For example, in one instance a possible sale of a parcel of real estate for $10 million was to be financed by USN. I told Mr. Jamison the only way that the BCIC
line could be straightened out was to arrange some independent financing.

The Comptroller of the Currency has two men in the bank full-time, and has said they will develop any information we request. Among other things I asked that they verify sales of loans.

V. P. Jamison said the Reserve Bank expects to be asked for a loan of about $45 million today. Of this $10 million would be a renewal of the loan now outstanding and secured by U.S. bonds. The other would be a new advance and would be secured by loans.

Distribution: Messrs. Melnicoff Solomon O'Connell Partee Ring Feldberg Ryan
Vice President Jamison called today to tell me that on Friday, June 29, the Federal Reserve Bank of San Francisco made an additional $30 million loan to USN. The Federal Reserve Bank now has loaned $40 million to USN: $10 million collateralized by U.S. securities and $30 million by loans.

On Thursday USN had been borrowing $58 million in Federal Funds. On Friday, after our advance, the bank borrowed $44.5 million in Federal Funds. The bank plans to stay in the Federal Funds market as long as possible. Most of the banks lending to USN are Eastern banks. Chemical, Bankers Trust, Irving Trust, Chase, and Mellon each have loaned $5 million. First National City has loaned the bank $8 million. The other banks are West Coast banks including United States National Bank of Oregon, and First Western Bank and Trust Company.

On Friday the bank had to pay maturing certificates of deposit totaling $10 million and honor a $3 million letter of credit pledged to support sale of commercial paper.

Later in the day (July 2) Mr. Jamison again called, and said that the loan to USN would be reduced by $10 million today. Federal Funds borrowings should be $41 million. The bank needs slightly fewer borrowings as total deposits increased $11 million on June 29.
On Tuesday, July 3, USN borrowed $30 million from the Federal Reserve Bank of San Francisco. It also succeeded in selling $5 million in installment loans to Harris Trust Company of Chicago.

On Thursday, July 5, the bank has stated it will have to borrow $35 million. We have on hand collateral sufficient to permit a total loan of about $42 million.

On June 29 President Balles and Vice President Jamison visited with Mr. Clausen of the Bank of America. The purpose of the visit was to discuss the possibility of selling a pool of installment loans to a group of large California banks. Mr. Clausen thought it a good idea, and Mr. Medberry, Chairman of the Board of Bank of America, talked to Mr. Swinney of USN. Mr. Swinney also thought it a good idea and talked to Messrs. Mulvaney and Woltman who agreed. The Bank of America was advised and efforts are said to be underway which should result in sale of a significant volume of these loans to a consortium of California banks. A reason for the sale is to permit USN to reduce its borrowings; Federal Funds are said to have cost it 12 percent on July 2 and 15 percent on July 3.

Mr. Jamison told me that he asked Regional Comptroller Larsen if the bank has met the conditions imposed by the Comptroller in the
Cease and Desist Order. To this Mr. Larsen replied to Mr. Jamison that he had sent a "dunning letter."

The steps that have been taken or are planned provide day-to-day operating funds. But no final resolution of the bank's problems can be made until the bank and supervisory agencies face up to the problems contained in BCIC, and to a lesser extent, in Westgate. I keep urging Mr. Jamison to keep pressing the Regional Comptroller, and I plan to discuss this with the Comptroller's office very soon.

Distribution: Messrs. Holnicoff Solomon O'Connell Partee Ring Feldberg Ryan
On July 10 I talked about the bank with Vice President Jamison who had been in Los Angeles visiting with representatives of the Federal Reserve branch on July 9. He stated that at this time the bank is borrowing $35 million from the Federal Reserve System, and $45.5 in the Federal Funds market. Deposits are down about $3 million (mostly demand) and now total $916 million. Loans are down $2.3 million due largely to a sale of the Westgate foods line to United California Bank; it is understood United California Bank will take on all indirect liabilities related to this particular loan.

While in Los Angeles Vice President Jamison discussed with Assistant Vice President Thomas means to check the accuracy of USN's forecast. Forecasts made by USN will be checked against actuality. We are receiving statements of all activities, either payments, renewals or necessary additional loans, in the BCIC and Westgate lines.

Progress in solving the bank's problems is distressingly slow. Hopefully at the meeting today between five representatives of USN and the new Comptroller of the Currency with his associates, some plans for solving the bank's problems will be developed. Governor Bucher, Mr. O'Connell, and I are to meet with Comptroller of the Currency Smith, First Deputy Watson, and General Counsel Bloom on July 12.

Distribution: Messrs. Melnicoff, Solomon, O'Connell, Partee, Ring, Feldberg, and Ryan
Office Correspondence

Date July 12, 1973

Subject: United States National Bank (USN), San Diego, California

Very Confidential (PB)

The Cease and Desist Order of the Comptroller of the Currency requires the submission of monthly reports by USN with such reports to be submitted the 10th of each month. These reports indicate that in the BCIC and Westgate lines the following changes occurred between June 10 and July 10:

<table>
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<th>Control group loans</th>
<th>June 10</th>
<th>July 10</th>
<th>Difference</th>
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<tbody>
<tr>
<td>BCIC</td>
<td>$313.4 million</td>
<td>$327.9 million</td>
<td>+ $14.5 million</td>
</tr>
<tr>
<td>Westgate</td>
<td>$70.4 million</td>
<td>$87.9 million</td>
<td>+ $17.5 million</td>
</tr>
</tbody>
</table>

The report states that the increase was "due to letters of credit and bankers acceptances maturing without payment." This I do not understand as both these contingent items were supposed to have been included in the total loans to BCIC and Westgate. It was stated that letters of credit and bankers acceptances totaled approximately $115 million.

The report states that liquidity was equal to 18 per cent on the Comptroller's form as of June 29.

From June 1 to July 6 time deposits decreased $40 million, partially offset by an increase of about $7 million in savings accounts. Mr. Jamison said that Union Bank has committed to buy $30 million in loans and Bank of America has committed to buy $50 million. We know that Bank of America may buy $50 million; however, we do not regard this as a firm commitment by Bank of America. Mr. Jamison has no knowledge of any commitment by Union Bank and frankly doubts there is one.
The report is optimistic with respect to progress stating that Westgate is on its way to solution. The fact that total loans have increased in this line do not support this view. Incidentally, Mr. Swinney of USN recently informed Mr. Jamison that he had been misinformed when he told Mr. Jamison that UCB had taken over the Westgate Foods line from USN. What Mr. Swinney now says actually transpired was that a good loan of about $4.5 million to a savings and loan association was sold to the Bank of California, N.A.

The bank's report states that they expect soon to come up with a proposal on BCIC similar to the one on Westgate. Mentioned were some recent sales of real estate in Bakersfield County for $3,600 per acre. Representatives of USN now seem to feel that they can sell all the property for this amount; however, Mr. Jamison noted that much of this property would not fall into this high-priced category and would sell for substantially less.
July 12, 1973

Memo to: Board of Governors  Subject: United States National Bank (USN),

From: Brenton C. LaVitt  San Diego, California

Very Confidential (PR)

On July 11, 1973, Vice President Jamison called to report
on USN. Deposits and loans as of the close of business on July 10 were
$912 million and $588 million respectively. These figures have changed
little over the past several days.

The bank has an excess in average reserves for the weekly period
amounting to about $10 million; thus, the loan for today (July 11) will
be $25 million. Federal Funds purchased on July 11 total $41 million.
The group of banks willing to purchase the block of consumer credits
continue to work on the problems involved. It is understood that two
representatives of the Bank of America are currently in USN reviewing the
loans.

A letter is being dispatched from the Federal Reserve Bank to
USN asking for additional information on such areas as commitments,
maturities of large loans, and concentrations to the controlled group.
Mr. Jamison said there was another article in the Los Angeles Times about
USN and possible sale of real estate in Bakers Field County, California.
This involves a big farmer named Hollis Roberts who has some undetermined
relationship with BCIC. He is said to be attempting to sell lands (some
of which are presumably BCIC loans) to Superior Oil Company for $48 million.
Any indebtedness of Hollis Roberts was not included in the Comptroller's
examination and this relationship has been determined subsequently.

A story on the radio is to the effect that the City of San Diego
is pressing C. Arnhold Smith to come to an agreement with the city on the
use of its stadium.
On July 18 Messrs. Balles, Jamison and Elderkin, representing the Federal Reserve Bank of San Francisco, Messrs. Edgington and Roddy from FDIC and I met with Messrs. Smith, Watson, Bloom and Larsen of the Office of the Comptroller of the Currency. The purpose of the meeting was to relay to them our grave concern about USN.

President Balles opened by defining our role as a lender and noting specifically that in no way was it our intention to usurp their proper regulatory authority. Rather in view of our loan to the bank and the possibility that it will increase dramatically we wished that office to know of our concern and to ascertain their plans for dealing with the bank's problems.

President Balles noted that the System has not accepted either BCIC or Westgate loans as possible collateral in view of the difficulty of appraisal of total indebtedness. It was noted that these loans had increased a total of $37 million (adjusted upward from $32 million after further analysis) between June 10 and July 10. President Balles expressed concern about this noting that such advances might well be an improper use of Federal Reserve credit.

Comptroller Smith stated that procedures for advancing new loans to BCIC and Westgate are being tightened. As I understand it,
additional advances will be made only (1) if there is a firm binding legal commitment or (2) when necessary to complete some project well underway. At the conclusion of the meeting it was stated that the Comptroller will require prior approval of his office before any loans are made to either company.

One of the requirements in the Cease and Desist Order dated May 24, 1973, was that C. Arnholt Smith would execute a trust agreement, the net effect of which would be to give to a trustee the power to vote stock owned by C. Arnholt Smith. This trustee would have to be approved by the Comptroller. While this agreement has not yet been executed, Comptroller Smith stated that it was to be completed soon.

In the next two and one-half months maturing letters of credit used as guarantees and unsecured CD's will total about $110 million. The amounts are $35 million in July, $34 million in August, and $42 million in September. How many of the letters of credit will have to be honored by the bank, and how many of the maturing CD's will not be renewed is unknown. At the present time documented discount notes, i.e., those using letters of credit as guarantees, total about $65 million.

Comptroller Smith stated that possibilities for a takeover are being explored. It is his view that the office could approve such a takeover on an emergency basis. But before this could be done a bank would have to review the assets and this could take as much as 90 days. In connection with talk about the possibility of a takeover (by merger, or purchase of assets and assumption of liabilities) there was a discussion
of the bank's plan to sell about $50 million of its consumer loans. Comptroller Smith indicated some concern with this noting that if all the good assets were sold, it might make it more difficult for the bank to be merged into some other institution. He would prefer that the Federal Reserve System loan on these consumer notes rather than having them sold to a bank or group of banks.

The Comptroller's Office was informed that if the bank does suffer significant deposit losses or if it must honor letters of credit given as guarantee, few additional advances can be made on the collateral presently held by the System. We noted that additional collateral would have to come from the BCIC and Westgate lines. Moreover, it was agreed that a comprehensive review of these lines was essential if the true condition of the bank were to be known. To obtain this appraisal the Comptroller will have some very senior examiners analyze advances to the two companies and set them up as money good, substandard, doubtful and loss. These examiners will be in addition to the resident examiners (currently two) who will remain in this bank continuously until problems are resolved.

The meeting was worthwhile, particularly when coupled with the other two meetings of Board personnel with Comptroller's personnel, as they point up very clearly the System's concern. Of major importance is the commitment on the part of the Comptroller to analyze the BCIC and Westgate lines, for as previous memoranda have indicated we will not know what is the condition of this bank until that has been done.

* * * * * * *
On July 20, 1973, Mr. Blanchard of the Office of the Comptroller of the Currency called to state that the office was trying to work out a sale of USN to Crocker National, Wells Fargo, or Barclays Bank of California. He asked if Barclays could acquire USN by purchase and assumption and I told him it could. This was checked with Board counsel who agrees.

Distribution: Messrs. Melnicoff Solomon O'Connell Partee Ring Feldberg Ryan Leavitt Jamison, V.P. Federal Reserve Bank of San Francisco
Office Correspondence

Date: July 25, 1973

Subject: United States National Bank (USN), San Diego, California

To: Board of Governors

From: Brenton C. Leavitt

Very confidential (FR)

On July 23 this bank was borrowing $20 million from the Federal Reserve System and $30 million in the Federal Funds market. Vice President Jamison said that the same borrowings were expected for July 24 and 25.

The Bank is issuing 4-year certificates of deposit at a 7-1/2 per cent rate. Thus far it has attracted about $21 million from this source, and the current rate of sales is about $3.5 million per day.

On July 23 examiners from the Office of the Comptroller of the Currency started a credit investigation. Presumably they will concentrate almost exclusively on BCIC and Westgate loans and possibly some other troublesome loans at the Fidelity office.

The Comptroller's examiners were accompanied by representatives of Wells Fargo bank. That bank is considering a purchase of assets and assumption of liabilities of USN with their decision dependent upon the findings of their investigators.

Distribution: Messrs. Melnicoff Solomon O'Connell Partee Ring Feldberg Ryan Leavitt Jamison, Federal Reserve Bank of San Francisco
Office Correspondence

To: Board of Governors
From: Brenton C. Leavitt

Date: August 31, 1973
Subject: United States National Bank (USN), San Diego, California.

Very Confidential (FR)

On Tuesday, August 28, Governor Bucher, Mr. O'Connell, and I met with Chairman Wille, Comptroller Smith, FDIC Director LeMaistre, and several of the senior staff of those two organizations. The purposes of the meeting were (1) to be briefed by National Bank Examiner Hans Reiss who was in charge of the credit investigation of USN and (2) to discuss in general terms the possibility of FDIC assistance to USN or guaranty to a bank that might acquire USN.

Mr. Reiss commented on the recently completed credit investigation which was concerned only with loans to C. Arnholt Smith and his interests. Based on his investigation he concluded that: loss classifications totaled $45,466,000; doubtful classifications $98,330,000; and substandard classifications were $193,043,000. Mr. Reiss briefly commented about some of the poorest of these loans stating that many classified as doubtful or loss either had no collateral, collateral appraised at only a fraction of the total of the loans, or no discernable means of payment. Many of the appraisals on real estate were said to be made by C. Arnholt Smith with little thought given to them. For example, it was reported that he made five appraisals on different parcels of real estate while seated in his office one morning. The bulk of these loans are in the BCIC group. Mr. Reiss stated that loans to the Westgaje group are regarded as collectible although substandard in quality.
The equity capital funds of the bank total $47,557,000 and debentures equal $14,750,000. Deposits are continuing to increase, borrowings from the Fed are remaining in the neighborhood of $25 million and a like amount is being purchased daily in the Federal Funds market. Uninsured deposits are equal to 43 per cent of total deposits. This amounts to a little over $300 million. Four banks are known to be interested in acquiring USN. They are Wells Fargo, Crocker National, United California Bank, and Bank of California, N.A.

It is understood that banks interested in acquiring USN would be willing to do so only with some sort of guaranty by FDIC that would limit their exposure. Comptroller Smith stated that in his view, it was inconceivable that a bank of this size would be permitted to fail. Mr. Wille stated that the FDIC was willing to study very carefully questions raised by FDIC assistance in this matter. In response to a question Mr. Wille stated that the corporation would need probably at least two months to determine how and what shape such assistance might take.

During the next 60 days a total of $68 million of certificates of deposit and letters of credit will mature. The Comptroller's office made no estimate of how many of these can be rolled over. Another problem discussed was that there will be a request for a report of condition from all banks around the first of October, give or take a few days. Issuance of a report by this bank indicating a reasonably satisfactory
condition when its true condition is known to supervisors is a question
to which the Comptroller's office plans to give consideration.

On August 30 Mr. Coyne told me that he had had a call from
a reporter for a San Diego based newspaper. The reporter stated that
he had been informed that United California Bank was going to take over
USB. He was told that no application had been submitted to the Fed and
that we knew of no such proposal.

Distribution: Messrs. Solomon
Helnicoff
O'Connell
Partee
Ring
Feldberg
Ryan
Coyne
Jamison
IN ACCORDANCE WITH OUR TELEPHONE CONVERSATION TODAY AND FOR COMMUNICATION TO THE OFFICE OF THE COMPTROLLER OF THE CURRENCY AND THE FEDERAL DEPOSIT INSURANCE CORPORATION, THERE FOLLOWS THE TEXT OF A RESOLUTION ADOPTED TODAY BY OUR BOARD OF DIRECTORS:

IT IS MOVED AND SECONDED THAT THE BANK IS AUTHORIZED TO MAKE FURTHER ADVANCES TO THE PROBLEM BANK IN LIGHT OF THE NEEDS, AMONG OTHERS, TO MAINTAIN SOUND CREDIT CONDITIONS AND A SOUND AND ORDERLY FINANCIAL SYSTEM. THE BANK IS DIRECTED TO CONVEY THE URGENCY OF THE SITUATION TO THE COMPTROLLER OF THE CURRENCY AND THE FEDERAL DEPOSIT INSURANCE CORPORATION AND TO REQUEST THAT APPROPRIATE ACTION BE TAKEN AS RAPIDLY AS POSSIBLE TO EFFECT A RESOLUTION OF THE MATTER IN THE BEST INTEREST OF THE PUBLIC. THE BANK IS FURTHER DIRECTED TO KEEP ITSELF AND THIS BOARD FULLY INFORMED AS TO THE ACTIONS OF THE COMPTROLLER AND FDIC IN THIS REGARD AND TO CONTINUE TO OFFER WHATEVER ASSISTANCE THOSE AGENCIES MAY REQUIRE.

REILLY

O'CONNELL
When Governor Bucher, Mr. O'Connell, and I met on August 28, 1973, with representatives of FDIC and the Comptroller's office to discuss this very serious problem bank (refer to my memorandum of August 31) the need for an additional letter to the Board from the Office of the Comptroller was discussed. This seemed advisable since the Comptroller’s earlier letter stated that we would be informed of significant changes in the bank’s condition. The Comptroller’s representatives said that such a letter would be forthcoming.

On September 4 I called First Deputy Comptroller Watson to ask about this letter. Mr. Watson stated that he had been out of town the latter part of the previous week and that we would have the letter soon. On September 5 I spoke with representatives of the Federal Reserve Bank of San Francisco to tell them about the letter, and to determine the attitude of the Federal Reserve Bank in view of the condition of the bank as reflected by the recently-completed credit investigation. A copy of my August 31, 1973, memorandum had previously been sent to the Reserve Bank.

Later that afternoon President Balles, First Vice President Williams, Vice Presidents Jamison and Reilly, and special counsel Elderkin called to discuss the matter and to indicate considerable concern about
the letter. The entire situation was discussed and arrangements were made for Mr. O'Connell and me to talk with representatives of the Federal Reserve Bank later that day.

Late in the day Mr. O'Connell and I spoke with the same group for a little over an hour. During that time we explained to them that it was our view that the System had been officially placed on notice when Governor Bucher, Mr. O'Connell and I met with several representatives of FDIC and the Office of the Comptroller. The sending of a letter would merely place in writing something that had been transmitted orally. This position was discussed and I believe there is general agreement that our view was the correct one.

President Balles expressed particular concern about the Reserve Bank's liability and that of the bank's board of directors in lending to an institution that is either insolvent or probably insolvent. These terms were used by the Comptroller's representatives during the August 28, 1973, meeting, and again on September 5, 1973, when Comptroller Smith spoke with Mr. O'Connell at the same time I was talking with the San Francisco representatives.

The directors of the Federal Reserve Bank meet today, and President Balles will inform them of the condition of this bank. It is understood that he will say that they have been lending to a solvent bank, but that future loans will be to a bank that is probably insolvent. We
discussed the appropriateness of the Federal Reserve Bank lending to USN with this knowledge. Specifically noted was the fact that in lending to banks a Federal Reserve Bank was "to give due regard to the purpose of the credit and to its probable effects of the maintenance of sound credit conditions, both as to the individual institution and the economy generally." The Federal Reserve Bank can, if it wishes, continue to loan to this institution if it makes a finding that to discontinue such lending would have adverse effects on the economy and if there is security available to collateralize the loan. But it should be noted that in such lending any Reserve Bank may be faced with a loss should the institution be closed. The collateral held by the Federal Reserve Bank could then well be subject to a determination by the courts. The Bank might be placed in the position of a general creditor. If the Reserve Bank wished to cease lending it would be very important to have a letter from the Comptroller's office commenting on the bank's condition.

As of September 5 USN was borrowing $15 million from the Reserve Bank and $20 million in Federal Funds. Recently there has been a considerable amount of publicity about the bank, and President Balles is concerned that a deposit outflow may materialize which would require greater lending by the Federal Reserve Bank.

During Mr. O'Connell's conversation with Comptroller Smith he was told that the FDIC is moving as rapidly as possible to come to some
Board of Governors

September 6, 1973

Strictly Confidential (FB)

determination as to the form of assistance they can appropriately provide. It looks as though the corporation will either guarantee a clean bank, a 90 per cent clean bank, or something along this line.

Interested bankers will then be informed and bids requested. Mr. Watson told me today that Wells Fargo is weighing the possibility of acquiring USBN without FDIC assistance.

A copy of the Comptroller's letter dated September 6, 1973, just received this afternoon, is attached.

Distribution: Messrs: Solomon
Melnicoff
O'Connell
Partee
Ring
Feldberg
Ryan
Coyne
Jamison
September 6, 1973

Attention: Governor Jeffrey M. Bucher

Gentlemen:

By letter dated June 19, 1973, the Acting Comptroller advised you that our most recent examination of United States National Bank, San Diego, California, had shown that bank to have potentially severe credit problems. You were also told that this Office would advise you of any significant change in the condition of the bank.

On August 28 Governor Bucher and Messrs. Leavitt and O'Connell of the Board staff attended a meeting at the FDIC at which time we reviewed the status of this bank as reported by our examiner who had been visiting the bank for the last two months and who was present at the meeting. We understand that you wish written confirmation of the review we conducted at this meeting.

As you are well aware from the reports made by the bank to the Federal Reserve Bank of San Francisco, United States National Bank experienced a deposit runoff of approximately $100 million during June 1973, the month following the filing of the SEC lawsuit against Mr. C. Arnholt Smith, Westgate California Corp., and others. Most of this runoff resulted from the withdrawal of money market certificates of deposit. The bank, however, picked up approximately $35 million in deposits during July 1973 through aggressive use of the newly permitted four year certificate of deposit with an unlimited interest rate. Deposits in the bank have been stable at approximately $935 million for more than a month.

Since May 1973 the management of United States National Bank has been working diligently with the collection of loans required by our cease and desist order of May 24, 1973. Some progress has been made, and the loan portfolio probably is in better shape now than it was when we wrote you on June 19, 1973. A collateral and operating agreement has been signed.
been obtained with Westgate California Corp. and all of its subsidiaries, and we believe the approximately $85 million in loans to these companies are better secured, supported by more relevant credit information, and are more likely to be collected than they were three months ago. Similarly, Mr. Hollis Roberts, who controls agricultural companies which have borrowed approximately $100 million from the bank, has been most cooperative in supplying credit information and has indicated a willingness to sign an agreement similar to that of Westgate. Our examiner believes these loans to be ultimately collectible.

On the remaining loans whose collection is required by our cease and desist order, the credit files of the bank still have many deficiencies which make it difficult to evaluate the loans. Our examiner's best guess is that approximately $32 million of these loans ultimately will be uncollectible. In addition, he believes that $13.5 million in contingent liabilities in the form of letters of credit or bankers acceptances will become payable by the bank, without the bank being able to collect ultimately from the borrowers. In accordance with your request, a copy of our examiner's visitation report containing these evaluations is enclosed.

I have not yet adopted the figures contained in the examiner's report, and I have not determined the bank to be insolvent. I am, of course, seriously concerned about the condition of the bank and believe that its ultimate failure is probable. As a precautionary measure, therefore, I am vigorously pursuing the potential sale of United States National Bank to a larger institution. I am also exploring with the FDIC the possibility of that Corporation assisting in any such purchase, if such assistance appears necessary.

As you know, the deposit runoff has caused severe liquidity problems for United States National Bank. The bank's ability to pay its obligations when due has been maintained by borrowings from other commercial banks and from the Federal Reserve Bank of San Francisco. Any new restrictions on these borrowings might cause the insolvency of United States National Bank with consequent damage to the uninsured deposits at that bank, and to the banking industry and the economy as a whole. I assume that no changes are contemplated in the borrowing arrangements between United States National Bank and the Federal Reserve Bank of San Francisco, and that I will be consulted well in advance of any proposed changes in these arrangements.

Very truly yours,

James E. Smith
Controller of the Currency

Enclosures
On September 19 President Balles and Special Counsel Elderkin representing the Federal Reserve Bank of San Francisco, Messrs. O'Connell and Leavitt of Board's staff met with Chairman Wille, Director LeMaistre, and General Counsel Bransilver of FDIC. The purpose of the meeting was to discuss FDIC's efforts to work out some solution to the problems confronting USN. President Balles opened the meeting by indicating his deep concern about this problem and specifically noting a story which recently appeared in a San Diego newspaper. That story stated that USN had recently lost deposits and a run on the bank was possible. Mr. Balles stated that in his view USN should not be permitted to fail and that it was necessary to solve its problems as soon as possible.

Chairman Wille told the Federal Reserve representatives of FDIC's progress to date. The Corporation has concluded that the only reasonable way in which it can be of material assistance is to offer to provide a "clean bank" which could be merged into some other large California bank. The three California banks which have evidenced an interest in acquiring USN have been briefed by FDIC. These banks are Crocker Bank, Wells Fargo, and Bank of California, N.A. Briefly the FDIC's plan is that USN would be placed in receivership and most liabilities (on the basis of current figures about $900 million) would be
assumed by a bank. The only liabilities to be excluded would probably be $10 or $11 million related to some foreign transactions and deposits of individuals, partnerships, and corporations having business dealings or connections with C. Arnhold Smith. The assuming bank would not be expected to acquire any of the Smith related loans and other assets whose values appear to be inflated. In order to provide a clean bank with assets equal to liabilities to be assumed, FDIC would have to put up somewhere between $200 and $300 million in cash. (Since total loans to Smith, his interests, and business associates totaled over $400 million about three months ago and since these will all be retained by FDIC, their cash contribution would likely be toward the upper end of their estimate.) Under the Corporation's plan the Federal Reserve System and probably banks selling Federal Funds to USN would be paid. The FDIC would enter into a "save harmless" agreement with the assuming bank so that it would be protected against lawsuits, unbooked liabilities, and other contingent liabilities arising from other transactions taken against USN.

Chairman Wille noted that the Corporation would not be ready to proceed during September, but he hoped that the assumption could be accomplished during the month of October. Chairman Wille mentioned that if the bank were placed in receivership, there will be a period of uncertainty before it would be known if any large California bank will acquire USN. Hopefully there will be more than one bank bidding for the clean bank; if there is not, FDIC will attempt to negotiate with any
single bank that might be interested. If the bank is to be acquired by a California bank, it is possible that USN would be closed for a day or two until such time as the assuming bank takes over and reopens offices. If there is an assumption, of course, depositors (other than possibly those mentioned above) will suffer no losses. Chairman Wille stressed that the Corporation was bound by the statute to take that course of action which will result in least loss to the Corporation. For instance, if the Corporation concluded that it would suffer less loss by liquidating the bank than by providing a clean bank, by law it would be forced to liquidate the bank. In that instance depositors having more than $20,000 on deposit presumably would suffer some loss.

Chairman Wille stated that he and Comptroller Smith plan to visit with the Department of Justice to determine if the Department would be agreeable to foregoing suit on competitive grounds if either Bank of America or Security Pacific Bank of Los Angeles were to acquire USN. If the Department will agree not to sue, these banks will be contacted to determine if they might be interested.

It was pointed out that Mr. Elderkin is a member of the same law firm (Brobeck, Phleger and Harrison) that represents Wells Fargo Bank. The possibility of conflict of interest was raised; however, Mr. Elderkin stated that careful measures had been taken to assure that there would be no conflict. He mentioned that he does not discuss this matter with other members of the law firm and those individuals working on the Wells Fargo account have been instructed not to discuss this case with him in any way.
General Counsel Bransilver stated that Corporation would reasonably soon have a draft of the agreement under which some bank might acquire USN. Mr. Elderkin asked if a copy could be sent to him. After discussion, it was concluded that the document should be sent to Vice President Louis Reilly, general counsel for the Federal Reserve Bank. It seemed best that no such document be mailed to the firm of Brobeck, Phleger and Harrison. Mr. Bransilver was later asked by Mr. O'Connell if he would also make available to Board staff the draft and subsequent final memorandum. Mr. Bransilver agreed to do this.

There was some discussion of the extent to which the Federal Reserve might make additional loans. (As of September 18 the Federal Reserve Bank had $30 million loaned to USN.) Mr. Balles noted that they had sufficient collateral to make loans totaling about $105 million; if the Reserve Bank was asked for more, the position would have to be studied carefully.

The meeting then adjourned. Chairman Wille was extremely forthright in providing Federal Reserve representatives a complete picture on the Corporation's activities to date. It seems that the Corporation is as concerned as is the Federal Reserve System in bringing this problem to a satisfactory conclusion.

Distribution: Messrs. Solomon Melnicoff O'Connell Partee Ring Feldberg Ryan Coyne Jamison
OFFICE CORRESPONDENCE

Date: October 5, 1973

Subject: United States National Bank (USN), San Diego, California.

Representatives of FDIC, including Mr. Wills at least some of the time, have spoken to the following seven California banks about acquiring USN: Security Pacific, Union Bank, United California Bank, all of Los Angeles, Wells Fargo Bank, Bank of America, Bank of California, and Crocker National, all of San Francisco. Three banks continue to evidence some interest in acquiring USN. These are Security Pacific, Bank of America, and Wells Fargo. The first two would pose significant competitive problems and are said to be less interested than is Wells. Wells continues to be by far and away the bank most interested in acquiring USN.

It is reported that FDIC is offering a clean bank with all "Smith" loans taken out and also power of the acquiring bank to return an additional $15 million in loans to FDIC for any reason. When, or even if, an acquisition will occur, is not yet known. It may possibly be as soon as this weekend, but is more likely to be over the weekend beginning October 12.

As of October 2 USN was borrowing $40 million from the Reserve Bank and $25 million Federal Funds from five different commercial banks; Chemical, New York, First National State, Newark, Irving, New York, Seattle First, and Mellon of Pittsburgh.
On June 18, 1973, Messrs. O'Connell, of the Board's staff, Kelly, Jamison, Aamodt, and Thomas of the Reserve Bank's staff, and Elderkin, outside counsel, met with Chairman of the Board Richard Woltman, President James Mulvaney, and Senior Vice Presidents Richard Spencer and John Swinney of U.S. National.

President Mulvaney opened the meeting by commenting about the cease-and-desist order issued by the Comptroller of the Currency. That order contains a number of provisions including (1) indemnification against loss to the bank by C. Arnholt Smith, (2) that the only relationship of Smith with the bank will be that of consultant, (3) that Smith will place his bank stock in a voting trust, and (4) that activities of Westgate and affiliated companies will be completely separated from the bank.

Westgate has several subsidiary companies of which the most important from the point of view of dollars involved are the following:

1. Air California. Efforts are underway to sell this company. During the first five months of 1973, the company had a profit of $700,000 which is regarded as rather surprising since it has been operating unprofitably for some time.

2. Yellow Cab companies operating in several California cities. The value of these companies is estimated at $20 million and the investment therein is $8,760,000. No figures were given on debts against the cabs although it is known that they are pledged as collateral.
3. San Diego Real Estate. The two principal parcels involved are Westgate Plaza, an elegant hotel, and a 25-story office building. The hotel is a cash drain on the company and it is generally believed Westgate will be lucky to get its money out of it. The office building cost $10,700,000 and has an estimated value of $22 million.

4. Westgate Foods. The parent Westgate corporation owns 49 percent of this operation. Westgate's investment in the company is $17,600,000 and the entire company is valued at $80 million. If this company were sold, the purchaser would have to assume a long-term debt of $48 million. The company is engaged in catching and canning fish and owns and operates a large number of tuna boats. It is known that some, possibly all of these boats, have been pledged as collateral.

The other major loans to Smith companies are those to British Columbia Corporation represented by loans totaling $188 million on various parcels of real estate in Kern and San Diego counties. This real estate is becoming increasingly difficult to sell as much of it lacks utilities and ecological groups are opposed to further development. Purchasers would very likely hope to pick up bargains and attempt to bid down asking prices.

The bank's liquidity needs for the period to the end of September are as follows. Virtually all of these certificates, bankers acceptances, and letters of credit will have to be paid as there is virtually no chance of roll over.
Liquidity needs to July 31 are $52 million and to September 30 are $94 million.

On June 18, 1973, the bank was borrowing $42 million in Federal Funds from six banks. Bank of America had loaned $8 million secured by $14 million time certificates due from foreign banks. United California Bank, First National City Bank, and City National of Beverly Hills had each loaned $8 million in Federal Funds. United States National of Portland, Oregon, and Irving Trust of New York each loaned $5 million.

The bank would like to have a Federal Reserve loan of $50 million for 60 days (this represents an additional $40 million as we are now lending $10 million to the bank). This loan would be used to pay Federal Funds to show the banking industry that the bank has the ability to clear these. On June 18 the bank had $41 million in its reserve account.

Should the Federal Reserve Bank make this $50 million loan and then have to cover CD’s, etc., maturing in July, we could have $90-$100 million loaned out by July 31.

1/ $1,000,000 self liquidating, secured by warehouse receipts
   $3,200,000 " " " " " "
   $307,000 " " " " " "

2/ Should be netted as $4,200,000 included in $19,950,000
Examiners worked over the weekend appraising collateral. Loans totaling $11,600,000 have been found acceptable and an additional $39,700,000 will be acceptable as soon as a few minor technical defects are cleared. This amount to $51,300,000. On the afternoon of June 18 an additional $61 million worth of loans was submitted to the Reserve Bank as possible collateral.

Planning on the part of U.S. National has been poor. They have not sold any assets and they do have good loans they could sell to raise funds. They are talking in terms of borrowing $90 million (it could be much higher) for one or maybe two years. Equity of the bank is equal to about $45 million.

I asked Mr. Jamison for his appraisal of management. He said he was not impressed with the four senior officials with whom he visited. They did not seem to be well informed, were not knowledgeable about specifics of the bank, and acted like individuals who had long worked for a domineering personality.

There is a copy of a letter addressed to the Board of Governors from Acting Comptroller of the Currency Watson in which he concluded that at the time of March 22, 1973, examination the bank was solvent.

Attachment

Distribution: Messrs. Melnicoff Solomon O'Connell Partee Ring Smith Ryan
Office Correspondence

To: Board of Governors
From: Legal Division (B. B. Tuttle)

Date: October 17, 1973

Subject: Proposed acquisition of assets and assumption of liabilities of United States National Bank (USN), San Diego, California, by Union Bank, Los Angeles.

Strictly Confidential (FR)

Attached is correspondence from the Comptroller of the Currency and the Department of Justice relating to the above matter.

cc: Mr. Melnicoff
    Mr. Feldberg
    Mr. Leavitt
The Honorable
Arthur F. Burns, Chairman
Federal Reserve Board
20th and Constitution
Washington, D. C. 20551

Dear Mr. Burns:

We understand that Unionamerica Company, the parent holding company of Union Bank of Los Angeles, California, has requested the Board of Governors to grant provisional approval to the acquisition by Union Bank of the assets and liabilities of United States National Bank, San Diego, California. As you know, contingency plans are presently being made by this Office in conjunction with the FDIC for a possible emergency takeover transaction of USNB in the event that such action becomes necessary because of the deteriorating condition of USNB. Present plans call for the solicitation of sealed bids by the FDIC, as receiver, from the various interested and eligible California banks. The Union Bank has in effect requested permission from the Board of Governors to submit such a bid.

This is to advise that the condition of USNB is such as to necessitate and justify expedited handling of the Union Bank request and we would very much appreciate it if the Board could take whatever action is necessary in this regard at its meeting tomorrow.

Sincerely,

James E. Smith
Controller of the Currency
Honorable Frank Wille  
Chairman  
Federal Deposit Insurance Corporation  
550 17th St., N.W.  
Washington, D.C. 20429  

Dear Frank:  

When we last discussed the United States National Bank ("USN") situation, I promised that we would undertake an expedited analysis of the competitive relationship between USN and the other large banking organizations mentioned as possible purchasers.  

Because of the time pressures, we have concentrated on the effect on direct competition. If USN were a fully viable organization, we would probably be concerned about the purchase of USN by any of the other large California banking organizations, from the standpoint of potential competition and the competitive structure in the state as a whole. However, given USN's present difficulties, we feel that the horizontal analysis we have undertaken provides a reasonable guide to the relative competitive impact of the sale of USN to any of the banking organizations discussed.  

One additional caveat should be noted. The actual statistics used represent our best effort in the time available, and there may well be slight variations or inconsistencies contained therein. We are of the present opinion, however, that they are representative of what a fuller and more precise analysis would disclose. If any errors are immediately noticeable, we would appreciate being informed.
The statistics are presented in 4 different tabulations. The first shows the percentage of offices held by all banks in all cities in which USN has offices; the second shows the percentage of deposits held by all banks in such cities; the third shows for each such city the number and amount of both offices and deposits held by all banks in such cities; and the fourth shows, for each major bank, the number of offices and amount of deposits held in all cities in which USN has offices. All deposit data represent total deposits as indicated in the FDIC Summary of Deposits for June 30, 1972.

From these tabulations, it is clear that Bank of America ("B of A") and Security Pacific National Bank ("SP") are dominant competitors in almost every city in which USN has offices. In Los Angeles and San Diego, the cities in which USN has both its largest number of offices and its greatest amount of deposits, B of A and SP are the largest competitors. In Los Angeles, B of A holds about 28% of the offices and about 27% of the deposits; in San Diego, it has 32% of the offices and over 30% of the deposits. For SP, the comparable figures in Los Angeles are 23% of the offices and 26% of the deposits; in San Diego, SP has 16% of both offices and deposits. B of A and SP each have offices in all but five of the 38 cities in which USN has offices; in 22 of the 30 cities in which both B of A and SP have offices, they hold the two largest positions, and one or the other holds the largest position in 11 other cities. Acquisition of USN by either B of A or SP would clearly present serious antitrust problems.

United California Bank also presents serious antitrust problems, although even so it would still be preferable to B of A or SP as a purchaser of USN. It has offices in 24 of the 38 USN cities, and either a leading or substantial market share in at least 13 of those cities. In Los Angeles, United California has 10% of the offices and 14% of the deposits; in San Diego, 5% of the offices and 3% of the deposits. In Buena Park, Costa Mesa, El Monte, Rancho, Huntington Beach, Monrovia and Rolling Hills Estates, all cities in which USN has at least a 5% market share, United California has substantial (over 10%) market shares.
Of the remaining potential purchasers, Crocker-Citizens would appear to present the most competitive problems, followed (in descending order of problems) by Wells Fargo, Union Bank, First-Western and Bank of California. Bank of California clearly presents the least competitive problems, with offices in only 8 of USN's cities, and a major market share in only one such city. Based on our present information, I believe that the Department would not seek to challenge the purchase of USN by any member of this latter group. This is not to say, however, that a choice between these banking organizations should ignore competitive factors, and assuming that any bids received from any of these banks are in a relatively small range, we would hope that both the FDIC (as receiver) and the approving agency would give primary consideration to the organization presenting the least competitive problems.

As you will recall, I gave you a rather rapidly-done staff memorandum on the legal issues involved in this situation when we last met. We have found nothing since our meeting which would alter the conclusions expressed in that memorandum, and you should understand that it represents the Department's position. We are in the process of putting some polish on that document, and we will submit the finished product to you in the near future.

Clearly, this whole matter is of great importance to the Department. We appreciate being consulted in advance the way we have, and will do the best we can to contribute constructively when the day of reckoning is at hand.

Sincerely yours,

DONALD I. BAKER
Deputy Assistant Attorney General
Antitrust Division

cc: Edward Bransilver
Chairman Burns

For use if
Union Bank is the
successful bidder to
acquire United States
National Bank of
San Diego. Bidding
to take place Thursday
10/18.

B. O. R.
Office Correspondence

Date: October 18, 1973

To: Chairman Burns

From: Brenton C. Leavitt

Subject: Possible acquisition of United States National Bank, San Diego, Calif. by Union Bank, Los Angeles, California

(Strictly Confidential)

Bidding for United States National Bank is now scheduled to take place the afternoon of October 18 instead of October 19. The bidding will be at the Federal Reserve Bank of San Francisco. In the event Union Bank, a state member bank, is the successful bidder, you may have calls from newspaper reporters or you may wish to inform senior members of the banking and currency committees of reasons for our action.

The Board has known for some time that this bank was in trouble and has been extending credit through the discount window since June 13, 1973. At first our loan was secured by U.S. bonds. Later a portion of it was secured by pledged loans, and then loans were made only after consultation with the FDIC and Comptroller of the Currency. Recently our loan has been for about $30 million.

The Board knew that determined efforts were being made to salvage this bank and it was the System's judgment, both Reserve Bank and Board, that the public's interests would be best served by lending to the bank in order that a salvage operation could be worked out. At all times our loans were secured and advanced in accordance with the statutes.

The acquisition of certain assets and certain liabilities of United States National Bank by Union Bank was approved pursuant to the Bank Merger Act (12 U.S.C. 1828(c)). The Board received information from the Comptroller of the Currency that an emergency situation existed which
required that the Board act immediately pursuant to the provisions of the
Bank Merger Act in order to safeguard depositors of USN. It was the
Board's view that any anti-competitive effects, and these were adjudged
to be minor, were clearly outweighed by the public interest factors. These
public interest factors were that depositors would not lose money, that
business could be continued as normal, and that a severe adverse impact to
the economy resulting from the closure of a large bank could be avoided.
Office Correspondence

To: Board of Governors
From: Legal Division
(B. B. Tuttle)

Subject: Proposed acquisition of assets and assumption of liabilities of United States National Bank (USD), San Diego, California, by Union Bank, Los Angeles.

Strictly Confidential (FR)

Attached is a draft Order to be carried by a representative of the Board if the Board wishes to approve the proposed transaction.

cc: Mr. Feldberg
Mr. Melnicoff
Mr. Leavitt
Union Bank, Los Angeles, California, a member State bank of the Federal Reserve System, has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c)), for the Board's prior approval to acquire certain assets and assume certain liabilities of United States National Bank, San Diego, California ($873 million in deposits), and, as an incident thereto, to operate the present 62 offices of United States National Bank as branch offices.

Published notice of the proposed acquisition of assets and assumption of liabilities and requests for reports on the competitive factors involved therein have been dispensed with as authorized by the Bank Merger Act.

The Board has considered all relevant material contained in the record in the light of the factors set forth in the Act, including the effect of the proposal on competition, the financial and managerial resources and prospects of the banks involved, and the convenience and needs of the communities to be served and finds that:

On the basis of the information before the Board, including information from the Comptroller of the Currency, the Board finds that an emergency situation exists so as to require that the Board act immediately pursuant to the provisions of the Bank Merger Act in order to safeguard depositors of United States National Bank.
Such anticompetitive effects as will be attributable to consummation of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. From the record in the case, it is the Board's judgment that any disposition of the application other than approval would be inconsistent with the best interests of the depositors of United States National Bank, and the Board concludes that the proposed transaction should be approved on a basis that would not delay consummation of the proposal.

It is hereby ordered, On the basis of the record, that the application be and hereby is approved and that the acquisition of assets and assumption of liabilities and the establishment of the branch offices may be consummated immediately but in no event later than three months after the date of this Order unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of San Francisco pursuant to delegated authority.

By order of the Board of Governors,1/ effective October 19, 1973.
Attached is a draft Order to be carried by a representative of the Board if the Board wishes to approve the proposed transaction.

cc: Mr. Feldberg
    Mr. Melnicoff
    Mr. Leavitt
Union Bank, Los Angeles, California, a member State bank of the Federal Reserve System, has applied, pursuant to the Bank Merger Act (12 U.S.C. 1828(c)), for the Board's prior approval to acquire certain assets and assume certain liabilities of United States National Bank, San Diego, California ($873 million in deposits), and, as an incident thereto, to operate the present 62 offices of United States National Bank as branch offices.

Published notice of the proposed acquisition of assets and assumption of liabilities and requests for reports on the competitive factors involved therein have been dispensed with as authorized by the Bank Merger Act.

The Board has considered all relevant material contained in the record in the light of the factors set forth in the Act, including the effect of the proposal on competition, the financial and managerial resources and prospects of the banks involved, and the convenience and needs of the communities to be served and finds that:

On the basis of the information before the Board, including information from the Comptroller of the Currency, the Board finds that an emergency situation exists so as to require that the Board act immediately pursuant to the provisions of the Bank Merger Act in order to safeguard depositors of United States National Bank.
Such anticompetitive effects as will be attributable to consumption of the transaction will be clearly outweighed in the public interest by considerations relating to and involved in the emergency situation found to exist. From the record in the case, it is the Board's judgment that any disposition of the application other than approval would be inconsistent with the best interests of the depositors of United States National Bank, and the Board concludes that the proposed transaction should be approved on a basis that would not delay consummation of the proposal.

It is hereby ordered, on the basis of the record, that the application be and hereby is approved and that the acquisition of assets and assumption of liabilities and the establishment of the branch offices may be consummated immediately but in no event later than three months after the date of this Order unless such period is extended for good cause by the Board, or by the Federal Reserve Bank of San Francisco pursuant to delegated authority.

By order of the Board of Governors, effective October 19, 1973.
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BLJD OF GOVERNORS OF THE FEDr.
'
'L RESERVE SYSTEM

GDC 1029471 NBX charge to FEDERAL RESERVE BOARD
Rate: NBX
via: NBX

National Westminster Bank, Ltd.
London, England Telex number 885361

November 2, 1973

In response to your telegram of October 31 to Chairman Burns, you are advised that the United States National Bank of San Diego was closed by the Comptroller of the Currency on Oct. 18 at which time the Federal Deposit Insurance Corporation was appointed receiver under Section 12 U.S.C. 191. The receiver entered into an agreement for the purchase of certain assets and assumption of certain liabilities of United States National Bank by Crocker National Bank which purchase and assumption was approved by the U.S. District Court for the Southern District of California. page 1 of 2

A representative or representatives of the Board of Governors are willing to meet with representatives from various English banks. It is understood that you will contact Brenton C. Leavitt, a member of the Board's staff, to make arrangements for the meeting.

I trust that our prompt response to your telegram reflects also the Board's concern that there be no damage caused by this event to international banking relationships and especially to relationships with banks in England.

Feldberg
Federal Reserve Board

PLEASE TYPE OR WRITE PLAINLY WITHIN INNER BORDER--DO NOT FOLD
If additional space is required continue in space below.

FOR OFFICIAL BUSINESS ONLY--See Secretarial Handbook for Instructions and Rates
TELEGRAM
EASED WIRE SERVICE
RECEIVED AT WASHINGTON:

1973 OCT 31 PM 3 24

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D.C.

HAVING RECEIVED AND NOW HAD THE STATEMENT OF CROCKER NATIONAL BANK WHICH ARE EXTREMELY CONCERNED AT THE WAY THE MATTER OF UNITED STATES NATIONAL BANK OF SAN DIEGO HAS AND IS BEING HANDLED AS SUBSTANTIAL CREDITS WHICH INTERESTS APPEAR TO HAVE BEEN MISSED IS TO REQUEST IMMEDIATE OPPORTUNITY TO DISCUSS THIS MATTER WITH YOU. WE ARE ALSO CONCERNED WITH THE POSSIBLE DAMAGES WHICH MAY BE CAUSED BY THIS EVENT TO INTERNATIONAL BANKING RELATIONSHIPS AND ESPECIALLY TO RELATIONSHIPS WITH UNITED STATES BANKS. THIS MESSAGE IS BEEN SENT WITH THE KNOWLEDGE OF THE BANK OF ENGLAND AND WITHOUT PREJUDICE TO LEGAL RIGHTS OF ALL CONCERNED.

SIGNED
INTERNATIONAL WESTMINSTER BANK LIMITED FOR
INTERNATIONAL WESTMINSTER BANK AND CO.
ASSOCIATES INTERNATIONAL BANK LIMITED
INTERNATIONAL COMMERCIAL BANK LIMITED LONDON
CO-OPERATIVE COMMERCIAL BANK LONDON
AND BRITISH SONS AND CO LTD FOR
NEILSON INVESTMENT CO LTD.

SIGNED BY NATIONAL WESTMINSTER BANK LIMITED
INTERNATIONAL WESTMINSTER BANK LTD.
TELEX NUMBER 60540.

* MRIDE FELD UI

* MRIDER FELD UI

PLEASE ACKNOWLEDGE RECEIPT OF THIS CABLE AND THANK YOU FOR YOUR COOPERATION.

MR FELD UI AND TAYLOR

* MRIDE FELD UI

* MRIDER FELD UI
Banco Popular Espanol
Madrid, Spain
Telex number 22311

November 8, 1973

In response to your telegram of November 7 to Chairman Burns, you are advised that the United States National Bank of San Diego was closed by the Comptroller of the Currency on Oct. 18 at which time the Federal Deposit Insurance Corporation was appointed receiver under section 12 U.S.C. 141. The receiver entered into an agreement for the purchase of certain assets and assumption of certain liabilities of United States National Bank by Crocker National Bank which purchase and assumption was approved by the U.S. District Court for the Southern District of California.

I can also inform you that claims are now being filed with the Federal Deposit Insurance Corporation as receiver of the United States National Bank. If you wish to make a claim, it may be filed with the Federal Deposit Insurance Corporation at the United States National Bank of San Diego.

It is hoped this information is adequate for your needs.

Yours sincerely,

Federal Reserve Bank

cc: Governor Bucher, Messrs. O'Connell and Leavitt
National Bank of Spain has been and is being handled, as substantial creditors whose interests appear to have been prejudiced. We are also concerned at the possible damage which may be caused by this event to international banking relationships and especially to relationships with United States banks.

This message is being sent with the knowledge of the Bank of Spain and without prejudice to legal rights of all concerned.

Please let us have your complete information therein at your earliest convenience and be also advised that a representation of our banks would be in a position to have this matter handled directly with you should you deem convenient to do so.

Banco Atlantico Banco Popular Espanol - Madrid (Spanish Spain)

[TELEX NR. 28511]
As indicated to you at our meeting on November 9 in Washington, we would be pleased to receive the documentary evidence described in paragraph 4 of your telex and assure you that we will review such evidence and your proof of claim as promptly as possible. I would also reiterate FDIC's position that if in fact a particular letter of credit merely evidenced a direct interbank loan or deposit in the normal course of business, the purchase...
AND ASSUMPTION AGREEMENT ENTERED INTO BY FDIC AND CROCKER
CONTEMPLATES ASSUMPTION OF SUCH A LOAN OR DEPOSIT BY CROCKER
AND A FURTHER CASH ADVANCE BY FDIC TO CROCKER.

IT IS OBVIOUSLY IMPrACTICAL, HOWEVER, TO PROVIDE EACH CLAIMANT
IN THE RECEIVERSHIP AN OPPORTUNITY TO SUBMIT PROOF OF CLAIM TO
THE CHAIRMAN PERSONALLY, ESPECIALLY WHEN SUBSEQUENT ACTION
ON THE CLAIM WILL BE TAKEN BY THE FULL FDIC BOARD OF DIRECTORS.
I MUST ADVISE YOU, THEREFORE, TO FOLLOW THE FDIC'S NORMAL
RECEiversHIP PROCEDURES BY FILING YOU DOCUMENTARY EVIDENCE AND PROOF
OF CLAIM EITHER WITH THE LIQUIDATOR IN SAN DIEGO OR WITH MR.
JOHN SLOCUM, CHIEF OF THE FDIC'S DIVISION OF LIQUIDATION, HERE IN
WASHINGTON. ANY OTHER COURSE COULD BE CRITICIZED BY OTHER
CLAIMANTS AS UNDULY FAVORING THE BANKS YOU REPRESENT.