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Edmiston

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DIGEST OF REPORT ON BANK EXAMINATIONS AND
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Bank Examinations

The purpose of the report is to discuss present bank examinations as provided by law and as practiced by the various Federal agencies, and with suggestions as to changes that should be made both legislatively and administratively, with a view of obtaining more effective bank supervision.

Specific recommendations:

1. That examination and supervision of all banks coming under the jurisdiction of any Federal agency be centralized in a single agency, preferably the Federal Deposit Insurance Corporation.

Discussion:

While it is possible under the law to have a burdensome duplication of examinations of banks by Federal agencies, in actual practice duplication appears to have been avoided to a reasonable degree by cooperation between the agencies concerned. There is a certain amount of conflict between the Federal reserve banks and State banking authorities in the matter of examining State member banks but efforts have been made to avoid duplication so far as possible. Considerable duplication has occurred in the case of State non-member banks who applied for membership in the Temporary Insurance Fund. Duplication has also occurred in numerous cases where the Reconstruction Finance Corporation made loans to banks. Presumably these loans are a temporary expedient and any problem of duplication should not be a permanent factor in the problem of bank supervision.

2. That an immediate personnel survey be made of examining officials with a view to selecting a group who could adapt themselves to the changes necessary to be made, and that the group selected investigate carefully the examiners now on the various staffs in order to eliminate those who are not qualified for a place in a reorganized examining procedure.

3. That immediate steps be taken to develop a program and scope of examination that will more adequately meet the needs of a proper bank supervision.

Discussion:

Bank examiners have failed to take advantage of the opportunities of rendering constructive service to bank managements. Instead they have kept alive the traditional feeling of antagonism by being primarily suspicious of all bank employees and officials and extending their best efforts toward finding something to criticize.

It is impossible under the present situation for examiners to make an adequate examination. The practice of definite time limit for the completion of an examination results in the omission of many important phases of examinations, such as appraisal of assets without independent verification and little attention is given to a survey of the accounting system and procedures being followed by the bank. Moreover, there is a tendency to rely in certain phases of the examination on information which had been developed by the previous examiner.

Also the report suggests that examination fees in cases of national banks should be based on the cost of examining each bank rather than on the basis of the proportion of the assets of the bank to assets of all national banks.

4. That proper steps be taken to develop a staff of more efficient examiners by selecting assistants with higher qualifications than those now required, training them in periodic schools for examiners, and increasing the incentives for examiners to remain in the service.

Discussion:

The requirements of the Comptroller's office on the qualifications of examiners, together with the low salaries which are paid, have tended to keep in the examining force the least efficient of the examiners, who, because of lack of ability or because of some personality handicap, were unable to get jobs of any consequence in any banks.

5. That immediate steps be taken to devise adequate and uniform systems of records and internal audit procedure that might be adapted to the particular requirements of individual banks.

6. That uniform accounting principles and practices be agreed upon and required for all banks.

7. That necessary steps be taken to determine the factors which distinguish weak, badly managed banks from strong, well managed banks, and that sufficient use be made of the information developed through examination, and, otherwise, to detect and correct a trend toward insolvency in the early stages.

8. That the examining authority harmonize his activities with the monetary or policy-making authority in order that proper adjustment may be made in his practices with varying economic conditions.

Discussion:

Some of the conclusions reached in the Viner Credit Survey of the Chicago District are used to show the necessity in certain periods of having a definite check upon the stringency or leniency with which bank examiners are appraising bank assets from one period to another.

Bank Reports

The purpose of this section is to set out the legal provisions pertaining to periodic reports, a discussion of the reports now being used by the Federal agencies and the suggesting of certain desirable changes leading to a unification or standardization of these reports.

Specific recommendations:

1. That the function of obtaining call reports from banks be centralized in one agency, preferably the Federal Deposit Insurance Corporation, if the corporation is given the function of bank examination and supervision.
2. That monthly statements be obtained from all banks coming under the jurisdiction of any Federal agency and that the furnishing of these reports be made mandatory.
3. That every effort be made, through conference, or otherwise, with officials of all governmental departments interested in or concerned with information pertaining to banks, to develop bank reports that will serve the needs of all agencies concerned, but at the same time will not be an undue burden on banks.
4. That, as soon as Federal regulation is passed centralizing the obtaining of call reports, efforts be put forth towards securing the cooperation of the authorities of all states with a view to obtaining the passage of legislation that will permit complete cooperation with Federal authorities in bank supervision and bank reporting.

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