June 22, 1938

A greater degree of uniformity in bank examination procedure by examining agencies of the Federal Government and of the state governments has been made possible through an agreement reached by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Board of the Federal Deposit Insurance Corporation, and concurred in by the National Association of Supervisors of State Banks.

Coordinating with this agreement as to bank examination practice is a revision of the investment regulation which governs the security purchases which may be made by national banks and state banks which are members of the Federal Reserve System.

The program of coordination which has been agreed upon concerns itself with the loans and investments which banks may make and their treatment in bank examination and supervision.

It is believed that the interest of depositors will be protected as in the past and that the sound banks that were opened following the banking holiday of 1933 will continue to be soundly conducted and adequately supervised in the public interest. At the same time it is hoped that some impetus will be given to the flow of bank credit into business and industry in the interest of economic recovery for with a permanent and enduring prosperity will come an added assurance and safety for bank depositors.

It has been said frequently in the past few years that the practice of classifying certain loans made by banks as "Slow" has deterred banks from making sound and profitable advances to business. The agreement which has been reached completely eliminates the word "Slow" from the loan classifications by examiners and clearly defines the types of loans which are subject to criticism.

The agreement minimizes the importance of market price or day-by-day fluctuation in the quoted value of investment securities in the portfolio of the bank and thus encourages the acquisition of securities of investment grade for continued retention until maturity, and discourages speculation in securities. The treatment of profits from appreciated securities will be such as to further give encouragement to sound investment practices by banks.

The revision of the investment regulation governing purchase of investment securities by national banks and state banks which are members of the Federal Reserve System will make possible an expansion of bank credit in the field of sound local security issues. It is believed also that elimination in this regulation of reference to the ratings of securities will bring about an improved practice in the testing of the quality of bonds in the banks.