THE CANANDAIGUA NATIONAL BANK AND TRUST COMPANY

GEORGE W. HAMLIN
PRESIDENT

CANANDAIGUA, N.Y.

July 7, 1938.

Mr. M. S. Eccles, Chairman
Board of Governors of the
Federal Reserve System
Washington, D. C.

Dear Mr. Eccles:

I have received and read with much interest your letter of June 27th and also the copy of your recent letter to Senator Vandenberg which you enclosed. The latter contains the best answer to the questions discussed that I have yet seen, and suggests the solution of many of the problems which have so depressed and discouraged bankers generally and the small town bankers in particular.

I have delayed acknowledging your letter until I could have the new scheme for the valuation of a bank's security list, which you mention in your letter, applied to our particular list over a period of years. For the purpose of obtaining the eighteen months averages, we used market values as of the last day of each month, as we had these figures available since 1934. A daily average would, of course, give a somewhat different result, but I doubt whether there would be a wide variation from our figures.

I received the valuation figures this morning and am enclosing a copy, as I think you may be interested to see how, as applied to our bank, the operation of the new rule compares with that of the old. Some of the results are most surprising and, while favorable to us at this time, at other times appear to be quite the reverse.

X As the only reason for valuing a security list at all is to determine whether the bank can pay its obligations in full at a given time, I cannot see how it can legally be deprived of the benefit of any appreciation that may exist in Groups I, III or IV to offset any depreciation in Group II or III or IV, as the appreciation is an actual cash asset that can be realized by sale in a few days time.

As we have something like $530,000.00 in our Surplus, Undivided Profit and Reserve Accounts, we are well protected at this time against the operation of either rule, but I cannot even vaguely imagine how this new method of figuring values will affect our bond problems in the future.

THE CANANDAIGUA NATIONAL BANK AND TRUST COMPANY

GEORGE W. HAMLIN
PRESIDENT

CANANDAIGUA, N.Y. July 7, 1938.

Mr. M. S. Eccles ...#2

I very infrequently get to Washington, ordinarily not more than once a year. When I have occasion to come again, I should very much like to have a short conference with you, if you are free to give me one at the time, and get your advice on some of the small town banking problems, in which banks like ours are vitally interested. I will take the liberty of writing you to ask for an appointment before making my next trip to the Capitol.

Very truly yours,

G.W. Hamlin

President.

GWH/mhs

July 12, 1938

Mr. George W. Hamlin, President
The Canandaigua National Bank
and Trust Company
Canandaigua, New York

Dear Mr. Hamlin:

This will acknowledge your letter of July 7 respecting the recent changes in examination procedure with special reference to the treatment of bond depreciation. With your letter you enclosed a table of figures showing the depreciation or appreciation which would be reflected through an examination report under the new method as compared with the old method. As you say, this shows some surprising results and was very interesting to me. The only time, of course, that the old method would be more advantageous to a bank would be during a period of high current prices with relatively low prices obtaining during the preceding eighteen months. Your letter suggests, therefore, that there might be times when the new procedure would work to your disadvantage as against the old rule. I do not think this necessarily follows, as the treatment of such depreciation is not for the purpose of showing loss and consequently of requiring charge-off as depreciation is charged off only respecting defaulted bonds and all stocks. There might be a time, as you suggest, when appreciation in Group II would offset depreciation in Groups III and IV so that a charge-off would be required even though the entire portfolio might show a net appreciation. In such a situation it is obvious that the tendency would be for banks to sell some of the Group II securities which showed a profit, using the profit to offset the loss in the other groups. Thus the operation of the new rule, to my mind, serves to induce selling of the more speculative type of securities when they are high and to prevent such selling during periods of low prices. Such a result seems to be desirable.

One statement you made in your letter indicates to me that you do not appreciate fully the general principles underlying the recent revision. You say: "As the only reason for valuing a security list at all is to determine whether the bank can pay its obligations in full at a given time, I cannot see how it can legally be deprived of the benefit of any appreciation." The real philosophy behind the new rules is that a bank should not be examined for the purpose of seeing whether it can liquidate on the basis of market quotations obtaining on the date of the examination. On the contrary, the examination should be for the purpose of disclosing the general condition of the bank and the policies and practices of its management. The valuation of securities should be based on the same general principles as the valuation of loans or any other assets. You would not think of valuing or pricing your various loans on the basis of what they might bring if disposed of on the date of examination. On principle, no bond should be priced as of the date of the examination unless it is a bond on which loss is indicated such as a defaulted bond. In other words, unless there is something inherently wrong with a bond it is good until it goes sour, just as any loan is. However, in approaching this problem, too great a departure from tradition could not be expected and for that reason it was agreed that bonds of less than the top quality (Group I) should be priced, but on an eighteen months' average rather than on the market as at the date of examination. But here again the depreciation is not to be charged off but half of it is to be deducted in computing the net sound capital of the bank. The salient point in all this is that the soundness of a bank should not be determined by the market ticker on the date of examination but rather on the basis of what the various assets in the bank are worth over the long pull. This conception treats the bank as a going concern and not as a business to be liquidated on the date of examination.

Yours sincerely,

M. S. Eccles
Chairman

LC/fgr

1935	Group I Appreciation	Group II Actual Depreciation	Group II 50% of 18-mo. Aver. Deprec.	Group III Appreciation	Group IV Appreciation	Total New Method	Total Old Method
June	52,905	250,760	174,405	26,032	11,156	- 174,405	- 180,371
July	81,907	223,934	166,644	4,015	16,115	- 166,644	- 132,196
Aug.	62,824	217,238	147,018	d 43,734	16,954	- 196,572	- 153,083
Sept.	57,010	201,530	142,532	d 53,824	18,824	- 196,356	- 168,862
Oct.	65,074	177,763	137,950	d 82,305	16,149	- 220,255	- 131,758
Nov.	78,116	134,852	134,463	d 66,513	15,435	- 200,976	- 86,826
Dec.	104,758	100,244	131,938	24,050	15,745	- 131,938	+ 40,534
1936							
Jan.	103,926	65,594	125,045	36,113	18,876	- 125,045	+ 90,953
Feb.	130,387	47,674	116,348	44,891	21,770	- 116,348	+ 150,107
Mar.	123,558	56,546	107,893	41,281	21,675	- 107,893	+ 131,531
Apr.	114,384	69,589	99,524	23,057	17,601	- 99,524	+ 87,402
May	120,613	46,859	90,595	38,546	16,680	- 90,595	+ 115,745
June	144,761	54,498	82,191	48,753	12,137	- 82,191	+ 125,956
July	158,127	59,737	75,006	56,566	14,734	- 75,006	+ 169,788
Aug.	160,298	53,718	67,568	58,491	16,554	- 67,568	+ 181,425
Sept.	159,321	47,955	60,955	74,467	20,135	- 60,955	+ 205,969
Oct.	165,045	44,261	56,415	86,064	26,783	- 56,415	+ 233,631
Nov.	187,170	43,864	52,934	88,026	36,211	- 52,934	+ 267,544
Dec.	180,637	35,559	47,097	107,591	37,111	- 47,097	+ 289,781
1937							
Jan.	162,313	29,607	41,589	106,365	44,909	- 41,589	+ 283,980
Feb.	152,198	57,974	36,606	115,446	42,570	- 36,606	+ 272,240
Mar.	80,226	60,248	32,652	88,257	46,229	- 32,652	+ 154,465
Apr.	68,873	80,418	29,947	64,922	39,205	- 29,947	+ 92,583
May	79,151	85,299	28,570	59,406	34,449	- 28,570	+ 87,710
June	72,388	115,235	28,736	37,435	29,474	- 28,736	+ 24,000
July	99,476	89,784	29,688	41,964	36,114	- 29,688	+ 87,771
Aug.	77,812	131,162	30,890	32,890	31,959	- 30,890	+ 40,814
Sept.	46,625	149,364	33,474	12,742	22,566	- 33,474	- 67,430
Oct.	20,485	171,669	36,508	d 5,657	18,166	- 42,165	- 158,875
Nov.	2,855	197,387	40,492	d 12,636	15,079	- 53,128	- 191,089
Dec.	d 6,117	189,834	44,530	d 17,625	10,443	- 62,153	- 205,132
1938							
Jan.	45,308	287,724	50,585	d 21,380	11,519	- 71,965	- 252,276
Feb.	73,062	277,252	56,790	7,531	12,041	- 56,790	- 184,618
Mar.	4,369	383,240	66,108	d 17,427	4,759	- 83,535	- 391,521
Apr.	69,343	322,762	73,840	d 12,892	7,901	- 86,732	- 258,413
May	98,753	289,870	80,672	d 6,165	7,193	- 86,837	- 190,092
June	105,728	280,917	87,493	d 4,008	13,028	- 91,501	- 166,168

July 5, 1938

THE CANANDAIGUA NATIONAL BANK AND TRUST COMPANY
CANANDAIGUA, NEW YORK.

REPORT OF CONDITION OF THE CANANDAIGUA NATIONAL BANK AND TRUST COMPANY OF CANANDAIGUA IN THE STATE OF NEW YORK, AT THE CLOSE OF BUSINESS ON MARCH 7, 1938.

(Published in response to call made by Comptroller of the Currency, under Section 5211, U. S. Revised Statutes)

ASSETS

Loans and discounts		$ 802,506.92
Overdrafts		57.19
United States Government obligations, direct and fully guaranteed		1,416,279.00
Other bonds, stocks, and securities		2,405,285.90
Banking house, $38,096.54; Furniture and fixtures, $11,136.14		49,232.68
Real estate owned other than banking house		5,500.00
Reserve with Federal Reserve bank		510,458.65
Cash, balances with other banks, and cash items in process of collection		348,488.51
Cash items not in process of collection		866.87
Other assets		186.55
Total Assets		$5,538,862.27

LIABILITIES

Demand deposits of individuals, partnerships, and corporations		$ 754,578.95
Time deposits of individuals, partnerships, and corporations		3,606,056.42
State, county, and municipal deposits		252,995.70
United States Government and postal savings deposits		4,038.27
Deposits of other banks, including certified and cashier's checks outstanding		23,532.90
Deposits secured by pledge of loans and/or investments	$ 168,808.31	
Deposits not secured by pledge of loans and/or investments	4,472,393.93	
Total Deposits	$4,641,202.24	
Other liabilities		14.95
Capital account:		
Class A preferred stock, 2,750 shares, par $40 per share, retirable at $40 per share.... Common stock, 2,500 shares, par $100 per share	$360,000.00	
Surplus	250,000.00	
Undivided profits—net	235,091.74	
Reserves for contingencies	42,553.34	
Preferred stock retirement fund	10,000.00	
Total Capital Account		897,645.08
Total Liabilities		$5,538,862.27