

T R E A S U R Y D E P A R T M E N T

Washington

Comptroller of the Currency.

July 16, 1915.

The Honorable,
The Comptroller of the Currency,
Washington, D. C.

Sir:

In compliance with your instructions this committee has prepared a schedule of information which is to be compiled and transmitted to the local Federal Reserve bank by the Chief Examiner of each Federal Reserve district from the examiner's reports of examination, sufficiently comprehensive and in such detail as to fully disclose the bank's financial standing and the character of its management, together with full statements covering all matters of essential interest and subject to criticism, which do, or are, likely to affect the bank's general condition. We have the honor to submit the attached statement which we believe in almost every instance will be found adequate by the governors and directors of the Federal Reserve banks for the purpose of determining whether a member bank's rediscounts should be accepted and its checks cleared. In exceptional cases, when requested by the Federal Reserve bank and necessary and proper reason in writing is given, and your attention is directed to same, you may decide what further information, if any, should be disclosed to it and specially authorize the Chief Examiner to furnish same.

From a conference held with a committee of the Federal Reserve Board, your committee understands that all credit information obtained or furnished from examiner's reports is to be retained in the confidential files of the Federal Reserve agent, but your committee respectfully suggests that this practice would seem impossible, for, if carried out, would result in the final control of the Federal Reserve bank and the decision as to the credits extended by them to member banks being placed in the hands of the Federal Reserve agent, instead of being lodged in the Board of Directors of the Federal Reserve Bank.

In considering the several questions which have come before this committee, especial attention has been given to the argument that the Federal Reserve agents, or their representatives, should have access to the copies of the examiners reports, as the claim is made that these would furnish more complete information than the schedule to be submitted. It is believed by your committee that the schedule attached to this report contains all information that could possibly be obtained from the report of examination with the exception of such confidential information as the names of borrowers, the collaterals to loans of borrowers, and the names and amounts of securities owned, which information the examiners are unable to give without violating the trust legally imposed upon them by Section 22 of the Federal Reserve Act.

Your committee is informed, and know, that it is the general practice of national banks to make loans, rediscounit and clear checks of other national banks on much less data in their possession than is given in this schedule. The Federal Reserve banks, in addition to this complete schedule, will no doubt make inquiries of their own and also exercise their right to demand and receive from the borrowing bank a financial statement of its condition, which may be used in addition to the five sworn reports of condition furnished annually to the Federal Reserve banks by the member banks at the request of the Comptroller of the Currency, and said Federal Reserve banks, through the Federal Reserve Board, may exercise the right to demand a financial statement of the standing of the makers of paper submitted for rediscounit. Regulation No. 4, November 10, 1914, of the Federal Reserve Board authorizing the Federal Reserve banks to obtain this information with respect only to such notes as were presented for rediscounit has been withdrawn and an effort is now being made by the Federal Reserve banks to obtain this information through the Comptroller of the Currency not only in respect to notes presented for rediscounit but in respect to any or all lines extended and securities purchased by the member banks without regard to the fact that the member bank may have no relations with the Federal Reserve bank other than that of depositor.

The concensus of opinion of this committee is that only a brief outline of the condition of a member bank should be given, sufficient to judge of its solvency without going into extended details and inasmuch as the member banks are

the stockholders and therefore the only parties liable for losses, your committee believes the member's opinion, which so far as ascertained is that the schedule proposed is more than sufficient, is deserving of serious consideration. The purpose of this Act was, and is, to assist member banks in obtaining relief from a congested condition and this relief should be extended. Although a member bank may be in an unliquid state though solvent and having an unimpaired capital, there would seem to be no reason for the Federal Reserve bank to refuse it accommodation.

In response to the argument advanced that detailed credit information is necessary as to all member banks, owing to the fact that they are constantly overdrawing their accounts with the Federal Reserve Banks, it is the opinion of this committee that the Federal Reserve bank may easily protect itself against loss from so-called overdrafts by requiring frequent violators to deposit securities with it - a practical and easy method. This so-called liability for overdrafts may easily be eliminated, provided the Federal Reserve bank maintains its position as agent and does not assume that of principal. We wish to add that the reserves of the member banks with the Federal Reserve bank are now at a minimum. These so-called overdrafts will probably entirely cease when the reserves are at their maximum. The Federal Reserve banks are in a position to demand balances to protect them against overdrafts and sound banking would seem to demand the exercise of that right, which right has been exercised by the regular reserve banks in the field. Attention is respectfully called to the apparent inconsistencies of the Comptroller making a determined effort to eliminate overdrafts from member banks, when at the same time these member banks are permitted to overdraw their accounts with the Federal Reserve banks, specially supervised, and with which they are compelled by law to maintain a minimum credit balance, while if these so-called overdrafts are permitted to exist, and are actual rather than a matter of bookkeeping, the member banks will be reporting a reserve which is, in fact, wiped out and has become a liability.

It is the judgment of your committee that the law did not contemplate dual examinations similar to those now made by the Comptroller of the Currency, and that Congress, composed of many practical business men and bankers and men of wide experience, believed that the Federal Reserve banks would use the methods prevailing among banks in deciding when to extend credits, which the schedule hereto attached more than fulfills and which relieves it of the necessity of making its own investigations.

It should be observed that the power given to the Federal Reserve banks to make examinations is not mandatory or general, as is the case with the Comptroller of the Currency, but simply discretionary - the Act providing that it may make special examinations when authorized by the Federal Reserve agent, or Board. Your committee respectfully submits for most serious consideration by the Federal Reserve Board, and yourself, that Congress, like the bankers and the borrowing and depositing public, believed that the affairs of the member banks should continue to be held in honorable confidence, as in the past, by the Comptroller and his examiners, which confidence has been recognized by the courts, and it was, no doubt, its intention that no deviation be now made in this long established custom, since the Federal Reserve Act makes it a misdemeanor for the examiner "to disclose the names of borrowers or the collateral for loans of a member bank to other than the proper officers of such bank without first having obtained the express permission in writing from the Comptroller of the Currency, or from the board of directors of such bank." Surely it was not intended for the Comptroller's office to furnish the Federal Reserve banks whose stockholders are national and State banks with directorates subject to change, with any confidential information of this character. In this connection it should be kept in mind that the law did not prescribe a penalty for disclosing information relating to loans and collateral of member banks on the governors, Federal Reserve agents or directors of the Federal Reserve banks.

If the reports of examination of national banks, which embody confidential views and communications were furnished or accessible to each Federal Reserve bank and its branches, which branches will be multiplied and the directors and officers of the system very largely increased, there will be the attendant danger of the confidential information of these banks becoming the property of their competitors, namely, Class "A" directors, and their customers competitors, namely, Class "B" and "C" directors.

The power by law vested in the Comptroller by which he has conferred upon him the right of final analyses and criticism and the constant enforcement of such necessary action as he may decide it is proper to take and enforce upon any national bank based upon the confidential reports of his examiners would be ABROGATED if the reports were allowed to become the records of the Federal Reserve banks

and its branches, directors and credit men by whom the contents of these reports would be subject to discussion and criticism.

In requesting access to the complete reports of examination, the Federal Reserve banks appear to be operating upon the assumption that the credit extended by them is an extra hazardous risk and of an abnormal character justifying them in demanding information not exacted by other banking institutions and in no way relating to the solvency of the bank. This point of view is not warranted by past banking experience and if the extending of accommodations is to be restrictive and surrounded with burdensome exactions, the success of the system is in jeopardy.

In considering the inadvisability of permitting an employee of the Federal Reserve bank having access to the reports of the examiners, your committee has taken into consideration the extent to which this privilege might be abused and desires to call your attention to the fact that, in one instance, where the consideration was whether the bank was to be permitted to exercise the powers of trustee, the credit man in addition to taking all the information which could possibly have a bearing on the solvency or management of the institution saw fit to take a list of the names and amounts of large individual balances subject to check which had been set forth in the report without comment.

In conclusion, your committee desires to state that in an earnest endeavor to set forth all items which, in their opinion could have a bearing on the solvency of the institution they may have gone further into detail than is necessary or desired by the Federal Reserve bank. Your committee therefore suggests, in the event that the copies of the schedule submitted are sent to the Reserve agents for action by their Boards of Directors, they be requested to eliminate such items as they deem unnecessary or unimportant, and on the other hand if any item has been omitted which they deem important as bearing upon the solvency of the institution, they be requested to note same.

Respectfully,

(Signed) CHARLES STAREK

SHERRILL SMITH

JAMES D. BRENNAN

7/22/15

Name of Bank _____ Charter No. _____

Examination as of close of business 191

Capital Stock	\$100,000
Surplus	50,000
Undivided profits (net)	27,000
Reserved profits	20,000

	<u>Book value.</u>	<u>Market value.</u>
Bonds and other securities	\$	\$
Judgments, claims, etc.	\$	\$
Short time maturities	\$	\$
(Railroad and other notes.)	\$	\$
Net appreciation - depreciation		21,000

Total of loans and discounts not including short time maturities \$

	<u>Book value.</u>	<u>Doubtful.</u>	<u>Slow.</u>	<u>Loss estimated</u>
Statutory bad debts				2,000
Overdue paper				200
Other paper				—

Loans secured by real estate:

Debts previously contracted	50	50	50	50	150
Violation	50	50	50	50	250
Farm mortgage (new)	50	50	50	50	250
					750

Other real estate owned:

<u>Date.</u>	<u>Description.</u>	<u>Book value.</u>	<u>Prior lien.</u>	<u>Market value.</u>
		\$	\$	\$
<u>Loss estimated. D.P.C. or otherwise.</u>				

Banking house:	Net income.	Mortgage.	Book value.	Estimated value.
	\$	\$	\$	
Loss or appreciation estimated.				2,000

Furniture and fixtures: Book value. Market value. Loss or depreciation estimated.

\$	\$	\$
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\$	\$	400
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Cash items: Book value \$ Loss estimated. \$

Amount irregular \$

Overdrafts: Habitual? (yes or no)	<u>Amount.</u>	<u>Loss estimated.</u>
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To officers or directors \$

Under six months \$

Over six months \$

TOTAL RESOURCES \$	NET CAPITAL	1 \$25,751
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\$171,249

Deposits - Demand \$ Time \$

Borrowed money:	<u>Secured.</u>	<u>Unsecured.</u>
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Lowest

Highest rate

rate int-

erest paid.

Bills payable \$

Certificates of deposit, etc. \$

Securities sold (pledged to redeem) \$

Bonds borrowed \$

Rediscounts \$

Other liabilities, contingent, etc. \$

Habitual borrowers (yes or no)

Officers liability (total) \$	\$	\$
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Directors liability (total) \$

\$

\$

Officers liability (total) \$	\$	\$
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Directors liability (total) \$

\$

\$

Excessive loans \$

<u>Amount.</u>	<u>Firms of directors or officers, or which they control.</u>	<u>Directors or officers.</u>
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Excessive lines \$

Are loans well distributed?

Character of loans?

Eligible for rediscount?

General character of collateral?

	Amount	
Last dividend paid		
Is next dividend possible?		
Are official bonds in force?		
Directors meet		
Is attendance at Board meetings good?		
Are directors familiar with the assets of the bank?		
Active Discount Committee?	Meet weekly?	
Active Examining Committee?	Meet semi-annually?	Last examination?
Are assets verified at other times?		
Are books and records properly kept?		

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R E M A R K S

NOTE A. Special mention is to be made of the book and market value of all securities subject to any particular criticism, viz; Those strictly unmarketable, or when the market value does not represent their actual value.

NOTE B. Describe briefly.