

EXAMINATION OF STATE BANKS AND TRUST COMPANIES.

BANKING INSTITUTIONS APPLYING FOR MEMBERSHIP

I. Examination by State authorities.

If standard of the State examinations is satisfactory, the Federal Reserve Board will probably authorize the acceptance of the last previous examination, in lieu of a special examination. The Bank Commissioner is requested to file a certificate based upon such examination, certifying to the solvency of the Institution, and also to file two duplicate copies of the examination report or brief digests of such report ; also list of investments, giving valuation based upon last current quotations.

II. Special examination by State authorities.

Bank Commissioner is requested to file two duplicate copies of examination report, including examiner's text and list of investments in detail.

III. Joint examination by State authorities and examiners designated by the Federal Reserve Board.

Two copies of report to be filed.

IV. Special examinations by examiners designated by Federal Reserve Board.

Two copies of report to be filed.

EXAMINATION OF STATE BANKS ADMITTED TO MEMBERSHIP.

I. Examination by State authorities.

If examinations by State authorities are of satisfactory standard, Federal Reserve Board authorizes acceptance of such examinations, in lieu of special examinations by Federal Reserve examiners.

II. Joint examinations with State authorities.

The Board will designate the examiners, upon recommendation by the Federal reserve banks. State authorities are to be in charge of such examinations. When considered thorough, the technical examination should be accepted. Federal Reserve Examiner should obtain two copies of the report made by State examiners, including text. In addition should file separate report making comment as to methods used by the State examiners. The principal duty of the Reserve examiner in a joint examination is to make a detailed examination of the credit condition of the Institution, investigating the loan lines and loan policy.

III. Independent examination by Reserve Examiners.

A. May be divided as follows :

1. Detailed credit analysis and investigation.
2. Examination of technical details.

B. Purposes of examinations

1. To determine solvency
2. To see that the institution is obeying the provisions of the State law.
 - (a) In the case of banks applying for membership determine whether or not institution is able to comply with the provisions of the Federal Reserve Act and with the regulations of the Board.
 - (b) In the case of banks admitted to membership determine whether or not they are complying with the provisions of the Federal Reserve Act and regulations of the Board.
3. See if there are any unsafe or unsound tendencies apparent in the management of the institution under examination.

It is often said that the duties of Government examiners are primarily to determine the solvency of the Institution and to see that the Institution is obeying the provisions of the law. During recent years, however, examiners have devoted considerable time to consideration of credits and the credit policy. The technical examination made by examiners is usually thorough. Federal reserve

examiners will be expected to devote a considerable portion of their time to the credit rather than the technical examination. Particular attention should be given to the following :

1. Discount and loan policies of institutions as to
 - (a) Liquidity
 - (b) Distribution of loans
 - (c) Undue concentration to favored interests.

2. Management
 - (1) Business, firm and other outside affiliations of officers and directors.
 - (2) Loans to officers, directors and employees.

Arrange loans in groups to show indebtedness of each official as maker, endorser or guarantor; loans to firms and corporations in which he is interested either as member, officer or director; loans to relatives and business associates of officers and directors.
 - (3) Unsecured loans to officers of other banking institutions. Make inquiry as to reciprocal loans.

3. Holding Companies.

Controlled by the banking institution should be carefully investigated to see that net worth of assets is sufficient to cover advances made by the banking institution. Care should be exercised to see that such companies are not used to cover questionable practices or evade laws. Detailed memoranda should be obtained.

4. Loans
 1. (Doubtful)
 - A. Past due paper, special attention to notes or loans in default six months or more which are not properly secured.

- B. Demand loans upon which no interest has been paid for one year or more. (Unsecured demand loans should always be closely scrutinized).
- C. Loans maturing after one year
- D. Bad debts
- E. Loans of questionable value
- F. Slow loans
- G. Notes renewed from time to time, with interest added.

2. Excess loans.

Advances in excess of 10% of capital and surplus or exceeding 30% of capital. (Surplus does not include undivided profits).

- 3. Large loans to any one person, firm corporation or to affiliated interests.

Suggested lines of investigation :

- A. Business of borrower - location of business.
- B. Ledger record - activity of accounts of commercial borrowers.
- C. Liability record - record of past loans and payments.
- D. Credit files and statements.

Special - Scrutinize permanent loans and notes renewed with interest added, also unsecured and secured loans to real estate trading corporations and to individuals connected with such corporations.

5. Collateral loans - Special attention directed to

- 1. Loans secured by securities issued by small, close and private corporations.
- 2. Loans upon securities issued by corporations controlled by directors or one or more groups. (In case undue proportion of bank's funds is so loaned.)

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3. Real Estate Loans.

A. Policy of institution in granting loans upon real estate

B. How is property appraised - up to what extent of value is money loaned

C. Loans, secured - first mortgage - second mortgages - equities.

D. Loans upon securities issued by real estate corporations.

6. Loans or Advances

A. Secured by own bank stock

B. Secured by stock of other banking institutions

C. Secured by non-interest bearing securities.

7. Loans or advances made to individuals, firms or corporations which appear on books in names other than actual borrowers. (Dummy loans).

8. Loans and advances which do not appear as such on the books of institution (certificates of deposit).

INVESTMENTS.

Securities

- 1. Based upon real estate properties or equities in corporations owned or controlled by directors or officers of the institution.
- 2. Issued by local corporations.
- 3. In default

CONTINGENT LIABILITIES.

Bills rediscounted or endorsed, guaranties of obligations and undertakings, notes and securities pledged or sold with agreement to repurchase.

REAL ESTATE HOLDINGS

Prior liens - Excessive valuation

TEXT OF REPORT

Examiners are requested to cover the following points in the text of their report :

1. Character of business in the community in which the institution is located.
2. Character of the business of the bank - functions exercised.
3. Compliance with the provisions of the State law.
4. Solvency of the institution.
5. Deduction from assets.
6. Competency of management.
7. State whether the loan policy is considered safe and conservative.
8. Policy of the institution regarding loans to officers or directors or the enterprises in which they are interested.
9. State whether there are any unsafe or unsound tendencies apparent.
10. State whether there has been an increase in undesirable assets during the previous year.
11. If officers give proper time and attention to the affairs of the institution.
12. Is stock control of the institution held by any one person or group.
13. Comment as to the accounting system. State whether proper safeguards are provided.
14. Comment as to holding companies. (Corporations owned or operated in the interest of the banking institution).

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15. Comment as to law suits in which the banking institution may be interested.
16. Opinion as to the efficiency of examinations by State authorities.
17. In the case of a member bank, state whether the bank is complying with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board.

The examiner should make comments or report as to such other matters to which he desires to direct attention.

SCHEDULES AND STATEMENTS TO ACCOMPANY REPORT.

I. Report of condition.

Same form to be used as filed by State banks and trust companies provided for on the application blank.

II. Copy of daily statement used by bank under examination, to be certified to by an officer of the bank, certificate to read as follows :

" I hereby certify that this statement includes every asset and liability of the Institution. "

(Name of Officer)

III. Memorandum of the date upon which the last State examination was made and name of the examiner. If a trust company state if the trust securities and investments have been examined, when and by whom.

State whether periodical examinations are made by Directors.

State Law limitations (Brief memorandum)

- (A) Provision as to secured and unsecured loans to any one individual, firm or corporation.
- (B) Loans secured by real estate mortgages or other real estate collateral.
- (C) Investments.

IV. Loan schedule

Excessive loans, giving full details.

Large loan lines. Give name of borrower, business, address of borrower, amount of loan, amount of liability as payer, endorser or guarantor. Approximate deposit balance. (Suggest that deposit balance be taken from the ledger rather than from an average card).

Loans considered worthless, questionable, slow.

Loans on collateral of doubtful value and not readily marketable.

V INVESTMENTS

- A. List in detail, showing securities, rate of interest or dividend, par value, book value, valuation based upon current or last available quotations.
- B. Comment as to investments in default.
- C. Provisions for depreciation.

State whether book values are adjusted periodically to agree with current valuation.

- D. Detailed memorandum of the securities based upon real estate properties or equities.
- E. Comment as to securities in small, closed or private corporations, also as to securities issued by corporations in which officers and directors are interested.
- F. Securities of doubtful value or not readily marketable - estimate of valuation.

VI. Deductions from assets.

- Banking house
- Other real estate
- Furniture and equipment
- Investment securities
- Loans, give items in detail
- Overdrafts and cash items

List investments and securities of doubtful value not readily marketable.

VII. Cash Reserve

| | | |
|----------------------------------|---------------|----|
| Gold coin or certificates | | \$ |
| Legal tender | | |
| Silver coin and certificates | | |
| | Total | |
| National Bank notes | | |
| Federal reserve notes | | |
| Net balances with reserve agents | National | |
| | State | |
| | Total reserve | |

| | | |
|-------------------------------|---|----|
| Cash reserve required | % | \$ |
| Reserve permitted with agents | % | \$ |
| Total required | | |

Reserve short

Interest rates

| | | | | | | |
|-----------|---|------|---|------|---|--------|
| Dividends | - | Date | - | Rate | - | Amount |
|-----------|---|------|---|------|---|--------|

VIII. List of directors and officers

- Number of shares owned
- Name
- Postoffice address
- Liability as payer, individual or firm, including overdrafts
- Liability as endorser or guarantor
- Other occupation or business affiliations.

IX. Bank balances

- Large balances with reserve institutions
- Balances with other institutions.

X. Real estate owned

- How acquired
- Is title held by Institution
- Make note as to prior mortgages
- Assessed valuation
- Income
- Taxes
- Interest
- Appraised value, when and by whom appraised
- Real Estate loans, large items
- Valuation of properties.

Note Institution should have proofs or abstract of title showing mortgages and liens against properties. Receipts for taxes and certificate of valuation signed by competent appraisers should be on file.

- XI. A. Assets pledged as security for deposits or other purpose except money borrowed - give particulars.
- B. Notes and bills rediscounted - bills payable and certificate of deposit representing money borrowed.
 - 1. Present amount of indebtedness
 - 2. Assets pledged as security for indebtedness (totals only)
- C. Assets and liabilities which are not entered upon books of banking institutions.
- D. Moneys borrowed by officers and directors in the interest of the bank under examination.

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