

TECHNICAL EXAMINATION.

The technical examination covers the verification of the book accounts.

The following suggestions are made as to points to be covered in the technical examination of an institution: The principal points in connection with the Credit Examinations are covered in a separate memorandum.

All examinations should be made without previous notice to the Institution. All cash, securities, notes and other documents and papers belonging to the Institution should be placed under seal, to be released as soon as the examiners have finished with them. Examiners should endeavor to interfere as little as possible with the routine of the Institution.

## I. CASH.

- A. Tellers or counter cash should be verified first.
- B. Reserve cash, being under seal, may be counted at the convenience of the examiner. In this respect, however, it is customary to consult the wishes of the bank officials.
- C. Checks and other cash items:
  1. Exchanges to other banks should be placed in a sealed envelope with verification blank enclosed.
  2. Other cash items should be carefully scrutinized and verified and detailed memorandum taken of all items held in cash other than those intended for the next day's business.

## II. LOANS AND DISCOUNTS.

- A. All notes should be kept under the control of the examiner until desired information has been obtained.
- B. If possible to arrange it, no entries should be made on liability ledger until examiner has completed his work.
- C. Notes for current day's business should be examined and released. Inquiry should be made as

to whether there are any notes held for account of other banks or individuals included with the notes of the institution under examination.

D. Proof.

1. Independent machine list should be made and compared with the figures as called for by the bank records.

- E. An examination of each note should be carefully made to ascertain whether the notes are in proper negotiable form and whether the bank has title to them. - If guarantees held protect rights of bank (continuing or specific). - Proper corporate authorization on file.

III. COLLATERAL LOANS.

- A. Proof should be made and compared with the bank records.
- B. Collateral called for by notes or cards should be checked and accounted for and care exercised to see that the collateral securities have been properly assigned, either in blank or to the bank. A memorandum should be made of loans secured by stock or bonds of small, close or private corporations, in order that proper investigation may be made to determine the value. Care should be used to ascertain whether or not the mortgages or securities have been properly assigned and recorded, in order to give the bank proper title. In case of doubt as to priority of mortgages, title insurance policy or abstract of title should be called for.

- IV. Overdrafts should be carefully checked and care should be used to see if special privileges are given to favored interests.

V. INVESTMENTS.

- A. Actual securities should be counted and compared with the records of bank. In case of registered securities the certificates should be properly assigned in order to give the bank good title. A letter should be addressed to the institutions holding

securities for the account of the bank under examination, requesting that a list be furnished and also inquiry made as to whether the securities so held are subject to an offset of any kind.

VI. BANKING HOUSE.

- A. Real estate deeds should be examined and title should be in the name of the institution and properly recorded. Proof or abstract title examined to ascertain mortgages or liens. Appraised value, when and by whom appraised. Is building used exclusively for bank. Has any allowance been made for depreciation. Has property been marked up. What is considered the present valuation of the property.
- B. Furniture and fixtures, actual cost. What allowance has been made for depreciation.

VII. OTHER REAL ESTATE.

- A. How acquired, prior mortgages, assessed valuation, income, taxes, expenses, interest. Appraised valuation, when and by whom made.

VIII. DUE FROM RESERVE DEPOSITORIES.

- A. Last statement should be reconciled. If not possible to obtain special statement during the course of the examination, transcript should be taken from the date of the last reconciliation. In case of active account request should be made that statement of account be furnished in order that it may be reconciled. In the case of inactive accounts, regular reconcilements should be sent to other institutions. (Reconciliation forms will be furnished by the Federal Reserve Board.)

IX. OTHER RESOURCES.

- A. Accrued interest not entered upon books. Estimate should be made of accrued interest on demand loans, investment securities and real estate rentals.

## X. LIABILITIES.

- A. Capital stock proof should be made from the stock certificate books and also stock ledger. Each stock certificate should be accounted for.

## XI. SURPLUS. Should be checked.

## XII. UNDIVIDED PROFITS.

Represents the amount of profits as shown by the books, plus earning accounts and accrued interest not entered on the books; less current expense, interest and taxes paid, accrued interest and taxes and expenses not entered upon the books and estimate of unearned discount. If possible, an analysis should be made of the Expenses and Earnings.

XIII. DUE TO BANKS

Statements should be sent to each bank with the return reconciliation blank. In this connection forms and envelopes will be furnished by the Federal Reserve Board. Envelopes may be used only when examination is being made under the direction of the Federal Reserve Board.

## XIV. DIVIDENDS UNPAID.

Proof should be made from the cancelled checks and check stub book. All cancelled checks should be accounted for.

## XV. DEPOSITS.

## A. Individual.

Independent proof of ledger should be made. If time will permit proof should be taken of balances say one month back. In inspecting ledger accounts Examiner should be careful to see if any special privileges are being accorded to favored interests in permitting overdrafts or drawings against uncollected items. Check kiting operations. Charges against inactive accounts. In case it is customary for bank bookkeeper to take off a proof every two weeks or at longer periods, the examiner may check the machine list made by bank employees, but an independent footing must be made by the examiner. It is better, wherever possible, to take off an independent proof.

B. Certificate of Deposit.

Proof should be made from cancelled certificates and stub book.

C. Certified checks.

Proof should be made from the certified check book. Arrangements should be made to have all certified checks which are paid during the course of the examination returned to the examiner before being given to bookkeepers. In this way it will be possible to check up the outstanding amounts.

D. Cashiers checks outstanding.

Proof should be made in the same manner as certificates of deposit. Items paid during the course of the examination should be inspected by the examiner before being given to the bookkeeper.

E. Savings deposits or deposits in interest or savings department.

If possible an independent proof should be taken of the savings ledgers. If time will not permit last proof taken by bank bookkeepers may be checked, provided an independent footing is made by the examiner. As a general rule, no withdrawals are permitted on these accounts except on presentation of pass book. Some examiners have made it a point to require that all pass books presented during the course of the examination be inspected and balance compared by examiner or his assistant. Comment should be made in case the cash and ledgers of the savings or interest department are under single control.

F. Certificate of Deposit (Time)

Should be verified in the same manner as demand certificates.

XVI. NOTES AND BILLS REDISCOUNTED, AND BILLS PAYABLE, INCLUDING CERTIFICATES OF DEPOSIT, REPRESENTING MONEY BORROWED.

A communication should be addressed to the institutions

from which loans have been obtained, requesting advice as to the amount of indebtedness and the assets which have been pledged as security therefor.

Investigation should be made in order to ascertain if the amount as shown by the books represents the full amount of borrowings.

XVII. MORTGAGES ON BANKING HOUSE AND ON OTHER REAL ESTATE OWNED.

May be ascertained from title insurance policy or from abstract of title.

If papers are not on file the bank officials should be requested to obtain the necessary certificates to set forth the facts.

XVIII. OTHER LIABILITIES.

A. Accrued interest, taxes and expenses not entered on the books.

Apportion to date of examination amount of interest due on deposit accounts, certificates of deposits, taxes. Apportion amount taxes due on real estate owned and franchise and income taxes.

B. Expenses.

Estimate to date of examination amount of unpaid expenses, salaries, rentals, miscellaneous, etc.

C. Estimate unearned discount.

This is intended to represent an estimate of the amount which has been credited to discount earned but which has not yet been earned. Some examiners use the following method to determine the item:

If the average time of notes in a certain bank appears to be 4 months and the average rate of discount 5%, the unearned discount is estimated at the rate of 5/6 of 1% of the total amount of discounts. That is, the banks have credited up as

earnings in advance of actual earnings, an amount equal to  $\frac{5}{6}$  of 1% on the total discounts.

Average length of time of notes 120 days

Average maturity at any one time 60 "

Average rate for year 5%

Monthly proportion  $\frac{5}{12}$  of 1% -  $\frac{5}{12}$   
plus 2

Average maturity at any one time multiplied by average monthly rate equals  $\frac{5}{6}$  of 1%

- XIX. In connection with the examination it is customary to read the proceedings of the Board of Directors and Executive Committee meetings. This may be dispensed with in the examination by Federal Reserve examiners if it is considered advisable to do so.
- XX. The general purpose is to make the examination thorough but to interfere as little as possible with the regular bank routine.