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H. PARKER WILLIS, SECRETARY
 SHERMAN P. ALLEN, ASST. SECRETARY
 AND FISCAL AGENT

ADDRESS REPLY TO
 FEDERAL RESERVE BOARD

EX-OFFICIO MEMBERS
 WILLIAM G. MCADOO
 SECRETARY OF THE TREASURY
 CHAIRMAN
 JOHN SKELTON WILLIAMS
 COMPTROLLER OF THE CURRENCY

FEDERAL RESERVE BOARD

WASHINGTON

Dear Sir:-

The Federal Reserve Board has had under consideration the payment of dividends by Federal Reserve banks. In the future when it is the intention to submit to the Board of Directors of your bank the question of the payment of a dividend, the Federal Reserve Board desires to have you furnish it, a sufficient length of time prior to such submission, with the following information:-

1. Earnings.
2. Current expenses, including cost of Federal reserve notes used;
 - Depreciation in vault and equipment;
 - Net earnings;
 - Per cent and amount of dividend suggested;
 - Balance of the surplus and profit and loss accounts at the time of rendering statement, and estimated surplus after allowing for payment of dividend.
3. Unpaid indebtedness of closed banks to Federal Reserve bank:
 - (a) How secured,
 - (b) Estimated losses.
4. Indebtedness to Federal Reserve bank of member banks considered to be in over-extended or unsafe condition, giving names of banks, indebtedness of each, and security, if any.

For your information it may be stated that the Board holds that a Federal Reserve bank should, prior to the declaration of a dividend, make provision for the following:-

1. Provide for its entire organization expense;
2. Provide for the cost of Federal Reserve notes used;
3. Provide for depreciation in furniture, vaults and equipment, and where real estate is owned, provide a substantial amount to reduce the book value;
4. Provide an amount equal to its estimated losses on obligations of closed institutions;
5. Provide an amount equal to notes or obligations bearing the endorsement of failed banks where such notes have been past due for three months or more;
6. Set aside an amount equal to at least 10% of its net earnings during the first few years to provide for unexpected expenses and losses.

Attention is directed to the fact that dividends are cumulative and constitute a first claim upon the earnings of the banks. Deferred dividends should be paid when the earnings of the bank permit. It is regarded as better policy to show a gradually increasing dividend than to establish a high rate with the possibility that it may be reduced. The policy of declaring full dividends to a specified date is more highly regarded than that of declaring dividends at a lower rate for a longer period.

Very respectfully,

Governor.