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FEDERAL RESERVE BOARD

WASHINGTON

December 23, 1918
ADDRESS REPLY TO
FEDERAL RESERVE BOARD
X-1327

SUBJECT: DEPARTMENT OF EXAMINATION - FEDERAL RESERVE BANKS.

Dear Sir:

It will be recalled that in January last, in a letter addressed to all Federal Reserve Agents, the Board suggested that it would be desirable to have on the staff of each bank an experienced examiner who would be available to make independent examinations of banks applying for membership, joint examinations with State authorities or independent examinations of State member banks and, also, special credit investigations and examinations of any member bank, if and when deemed necessary.

Since that time, examiners have been appointed at several of the Reserve Banks. In those districts where no special examiners have been appointed, the examinations have been made by members of the auditing or official staff.

On page 1079 of the November Bulletin, the following statement is made:

"Every State bank and trust company, while a member of the Federal Reserve system, is subject to examinations to be made by direction of the Federal Reserve Board or of the Federal Reserve Bank by examiners selected or approved by the Federal Reserve Board. As heretofore announced, in order to avoid duplication, examinations by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever such examinations are satisfactory to the directors of the Federal Reserve Bank and where, in addition, satisfactory arrangements for cooperation in the matter of examination between the Board and the State authorities have been effected.

"Such arrangements have been effected with State authorities in practically all States whereby examiners from the staff of the Board or of the Federal Reserve Bank may act with the examination staff of the State. In order that uniformity may be attained in the standard of examination, it is purposed in future to conduct cooperative examinations in all States where the above arrangements have been effected and in which such examinations have not heretofore been made, and, in addition, to make from time to time special independent credit examinations of State bank members of the system."

In line with the policy stated above, the Federal Reserve Agents are requested to arrange to have examiners of Federal Reserve Banks participate with State examiners in the examination of a number of State bank members in each State during the calendar year 1919. It is suggested that examinations be made of both country and city banks and, if possible,

at least one-third of the entire number should be covered by such examinations during the calendar year.

Cooperative or independent examinations are deemed necessary for the following reasons:

- (1) That the Reserve Bank may have more detailed information regarding the credits of its State members than is available in the reports of State examiners.
- (2) That the Board and the Federal Reserve Bank may be satisfied that the examinations of State examiners are thorough and efficient and of such standard as to warrant their acceptance in lieu of special examinations by Reserve Examiners.

It is believed that with competent men as examiners for the Reserve Banks a higher standard will be developed and maintained, and, through cooperation, it may be possible to have State authorities adopt examination report blanks which will require more thorough investigations of credits than are made at present.

Department of Examination:

It is suggested that a Department of Examination be organized in each Federal Reserve Bank. This department should be under the general supervision of the Federal Reserve Agent. An experienced examiner should be placed in charge of both the field work and the office work of the department and should have such additional examiners and office force as will enable him to maintain a good working organization. All examiners should spend a short time in the principal departments of the Reserve Bank, particularly in the discount and transit departments, so that they may have an opportunity to become familiar with, and competent to answer questions regarding, the operations of the Reserve Bank.

Suggested outline of work assigned to department:

A. Office:

1. Custody of examination reports and reports of condition of all member banks.
The examiner in charge should keep fully informed as to the condition of every member bank and his analysis records should be so arranged as to be readily available for use of the credit department and the executive officers of the bank.
2. Investigation and recommendation to Reserve Bank officers or Committee in connection with applications of national banks for permission to exercise trustee powers and of member banks for permission to accept up to 100 per cent of capital and surplus.

3. Investigation of reports and data submitted with applications made by State banks for membership and recommendations to the Reserve Bank officers or Committee.

B. Examination or field work:

1. Examination of State banks applying for membership, if and when deemed necessary.
2. Examination of State member banks:
 - a. In cooperation with State authorities.
 - b. In cooperation with Clearing House examiners.
 - c. Independent examinations, if and when deemed necessary.
3. Special credit investigations or examinations of national and State member banks.

The primary object of Federal Reserve examinations will be to obtain more detailed information as to credits. When participating with State authorities or Clearing House examiners, it would be well to consider the work more in the nature of a special credit investigation, accepting the technical examination as made by the State or Clearing House examiners and making a special credit analysis for the use of the Federal Reserve Bank. If possible, the report forms suggested by the Federal Reserve Board should be used by the Reserve Examiners. It is quite likely that in the examinations of large institutions, there will be a number of State examiners participating, whereas the Reserve Bank may have only one or two men present. The State examiner should be in charge of the examination and the Reserve Bank examiner or examiners assist him. In that way, the member bank will be subject to very little additional trouble.

The Board desires that this plan be put into effect on January first. You are therefore requested to arrange for the necessary assistance and to organize the department along the lines outlined herewith, advising the Board as to your progress.

In letter, X-677, dated January 26, 1918, the Board stated the view that at least once each year an examination should be made of each State member bank, either by the State authorities or by representatives of the Federal Reserve Bank, who have been or may be designated as special examiners by the Federal Reserve Board. The Board will expect the Federal Reserve Agent to assume responsibility for compliance with the request.

Kindly acknowledge receipt.

Very truly yours,

The Chairman,
Federal Reserve Bank,

Governor.