

FEDERAL RESERVE BOARD
WASHINGTON

192

X-3328
February 14, 1922.

SUBJECT: Member Bank Supervision.

Dear Sir:

There is transmitted herewith, for your information, copy of letter addressed to one of the Federal Reserve Banks in response to a request that the Federal Reserve Board outline and define the powers and duties of the Federal Reserve Banks regarding the matter of member bank supervision.

Very truly yours,

G o v e r n o r .

Enclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

February 14, 1922.

X-3328a

Dear Sir:

Receipt is acknowledged of your letter, in which you request the Federal Reserve Board to outline and define the powers and duties of the Federal Reserve Banks regarding the matter of member bank supervision.

So far as the law is concerned, it is sufficient to refer to the provision in Section 21 of the Federal Reserve Act that "In addition to the examinations made and conducted by the Comptroller of the Currency, every Federal Reserve Bank may, with the approval of the Federal Reserve Agent or the Federal Reserve Board, provide for special examination of member banks within its district". This provision gives to each Federal Reserve Bank the legal right, subject to approval by the Federal Reserve Agent or the Federal Reserve Board, to examine any of its member banks, including national banks and State member banks.

It is difficult to lay down any hard and fast rule of policy for Federal Reserve Banks to follow in exercising their power to examine member banks. The Board is of the opinion that unnecessary duplication of examinations should be avoided, and that independent examinations need not be made by Federal Reserve Banks unless for some reason the reports of examinations made by examiners of the Comptroller of the Currency and of the State Banking Departments fail to give the Federal Reserve Bank the information which it feels it should have. The Board believes that the practice of having Federal Reserve Bank examiners participate in examinations conducted by the State Banking Departments is a very desirable one and it might be possible for the Reserve Bank Examiners to participate also in national bank examinations on some basis satisfactory to all concerned. There may, of course, be special circumstances which make it desirable for a Federal Reserve Bank to undertake an independent examination of a member bank and whenever such an occasion arises the Federal Reserve Bank should not hesitate to exercise this discretionary power which it has, subject to the approval of the Federal Reserve Agent or the Federal Reserve Board.

Generally speaking, it is true that the authority to take corrective measures rests with the Comptroller of the Currency with respect to national banks, and with the State banking authorities with respect to State member banks. You are aware, however, that under the authority of Section 19 of the Federal Reserve Act the Board has prescribed penalties for failure on the part of member banks

to maintain the required reserve balances; and the Board also has authority to require a State member bank to withdraw from the Federal Reserve System upon proof that it has failed to comply with the law or the regulations of the Federal Reserve Board. Furthermore, Section 2 of the Federal Reserve Act provides for the forfeiture of the rights, privileges and franchises of any national bank whose failure to comply with the Federal Reserve Act has been determined and adjudged by a United States Court of competent jurisdiction in a suit brought for that purpose "under the direction of the Federal Reserve Board, by the Comptroller of the Currency in his own name."

The Federal Reserve Board takes the view that cases of noncompliance with Federal law and cases of objectionable practices on the part of member banks should first be brought to the attention of the particular member banks with courteous requests for remedial action. If this fails to bring satisfactory results, the matter should be reported to the State banking authorities in the case of State member banks and to the office of the Comptroller of the Currency in the case of national banks, and whenever such reports are made to either of these authorities, the Federal Reserve Board should be so advised.

Very truly yours,

(Signed) W. P. G. HARDING

G o v e r n o r .