

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6223

January 26, 1929.

SUBJECT: Examination of Member Banks.

Dear Sir:

The Federal Reserve Act requires that the cost of examinations of member banks made by the Federal reserve banks or the Federal Reserve Board through the Federal reserve agents, be assessed against the member bank examined. Within the last two weeks, bills have been introduced in both the Senate and the House of Representatives, which if enacted will amend the law in such a way as to make the charges for member bank examinations discretionary with the Board.

Upon several occasions in the past the Board has attempted, by circular letter, to define a credit investigation, but after several years experience it has arrived at the conclusion that a far too liberal interpretation has been placed upon credit investigations by the agents.

The Board has had this matter under review for some time and on October 10, passed the following resolutions which deal with the responsibility of the Federal Reserve Board in reference to member banks as it interprets the law:

"BE IT RESOLVED, That the Federal Reserve Board recognizes its duty under the Federal Reserve Act to keep itself informed as to the condition of all member banks;

"BE IT FURTHER RESOLVED, That the Board is of the opinion that it is justified in relying upon the Comptroller of the Currency for such information as to National banks;

"BE IT FURTHER RESOLVED, That whenever the reports of examination of State member banks furnished by the State authorities are not deemed satisfactory either to the Federal reserve bank of the district concerned or to the Federal Reserve Board, the Federal reserve bank or the Board shall cause to be made at least one examination or investigation each year of such character as to furnish satisfactory information, the cost of such examinations to be assessed against the member banks examined."

In order to avoid duplications and unnecessary expense of operation, which now exist, the Board has voted that the Department of State Bank Examination, now in operation in the Board's quarters in Washington, be abolished, effective February 1, 1929, and that you be charged with the duty of seeing to it that the Board's views, as covered in the above resolutions, are carried out in your district. This does not mean that the Board is attempting to relieve itself of all responsibility, and you are advised that through its examining force, it will check carefully your bank examination department.

The following instructions will serve as a guide to you in performing your duties:

1. The Comptroller of the Currency is a member of the Federal Reserve Board and under the law is charged with the responsibility of enforcing the terms of the National Bank Act and also of the Federal Reserve Act. The Board therefore relies upon the Comptroller of the Currency to perform his duties and it will not be necessary for the Federal reserve agents to duplicate the work.

2. In the opinion of the Board, State reports of examination can be relied upon in the great majority of cases to furnish the necessary information to the agents.

3. If a State examination is unsatisfactory, a credit investigation will not give sufficient information for the agents to act intelligently upon and a complete examination should be made for which the member bank should be charged. This does not prohibit investigations of member banks by Federal reserve banks or Federal reserve agents without cost, because the Board realizes that unusual situations require unusual action. Therefore, the Board will act promptly by approving or disapproving the request of any Federal reserve bank or any Federal reserve agent for permission to make an investigation without cost. The Federal reserve banks, however, and the Federal reserve agents, in making such request for investigation without cost must bear in mind that if the investigation contemplates anything covered by the following language, which appears in Section 21 of the Federal Reserve Act, the Board cannot waive the cost: "The expense of such examinations shall be borne by the bank examined. Such examinations shall be so conducted as to inform the Federal reserve bank of the condition of its member banks and of the lines of credit which are being extended by them."

4. If Federal reserve agents have evidence in the form of letters or otherwise, that officers and directors of State member

banks have had their attention called to violations of the law and unsound banking practices by State authorities, it is not necessary for agents to duplicate this work.

5. If this supervision is not conducted by State authorities Federal reserve agents are directed to take such action, as in their opinion, will discharge the responsibilities of the Board.

6. When a State member bank fails to show any disposition whatever to correct these irregularities within a reasonable time so as to show improvement in its condition, the Federal reserve agent will be expected to lay the information before the directors of his bank and ask them to make a formal recommendation to the Federal Reserve Board, with reasons, as to whether or not the State member bank should continue as a member.

7. Federal reserve agents are instructed to discontinue their present practice of furnishing the Federal Reserve Board with reports of examination of State member banks, except in extreme cases where they may wish to ask for advice or request the Board to cancel membership. In lieu of these reports, agents will furnish the Board with an analysis of each report received or made by them, using the enclosed analysis form. A supply of this form is being forwarded under separate cover.

The Federal reserve agents are advised that the Board thoroughly realizes that it is utterly impossible to lay down uniform, detailed procedure in each and every district because of the local conditions which exist in the 48 states. It does believe, however, that certain fundamental policies can be laid down and asks your cooperation toward that end.

Yours very truly,

R. A. Young,
Governor.

TO ALL FEDERAL RESERVE AGENTS.