

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6665

July 26, 1930.

SUBJECT: Examination of Member Banks.

Dear Sir:

By an act approved by the President under date of June 26, 1930, Section 9 of the Federal Reserve Act was amended and the third paragraph of Section 5240 of the United States Revised Statutes, as amended by Section 21 of the Federal Reserve Act, was further amended so as to provide that the expenses of all examinations made by Federal reserve banks may, in the discretion of the Federal Reserve Board, be assessed against the banks examined and, when so assessed, shall be paid by the banks examined.

In view of this amendment, the Federal Reserve Board has reconsidered and revised the resolutions adopted by it on October 10, 1928, (set out in X-6223 dated January 26, 1929) so as to read as follows:

"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;

"BE IT FURTHER RESOLVED, That any entry of a member bank made for the purpose of informing the Federal reserve bank and the Federal Reserve Board, (1) whether the member bank is complying with the terms of the Federal Reserve Act, the Regulations of the Federal Reserve Board and the conditions of its membership in the Federal Reserve System and/or (2) as to the loan and investment practices

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and policies of the member bank and whether its uses of Federal reserve credit facilities are consistent with the purposes of the Federal Reserve Act, as these have been or may be defined by the Federal Reserve Board, shall not be termed an examination."

The Federal reserve agents are charged with the duty of seeing to it that the Board's views, as covered in the above resolutions, are carried out in their respective districts. This does not mean that the Board is attempting to relieve itself of responsibility and it will continue, through its examining force, to check carefully the Federal reserve agents' examination departments.

While the Board realizes that it is not possible to lay down a uniform detailed procedure applicable to each Federal reserve district, the following instructions will serve as a guide to the Federal reserve agents in the performance of their 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 agent 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, and an investigation will not provide sufficient information upon which the agents may act intelligently, a complete examination should be made for which the member bank should be charged. It is realized, however, that in some instances unusual circumstances may exist which would warrant the Board's exercising the discretion vested in it under the recent amendment and waiving charges for specific examinations. Any case which, in the opinion of the Federal reserve agent, warrants such special consideration should be submitted to the Board in advance, with a complete statement of the reasons why it is considered desirable to have the examination charges waived by the Board. Examinations of State banks incident to their admission to membership in the System may be made without charge.

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4. Any investigation of a member bank made for the purpose mentioned in the last paragraph of the resolution of the Board set out above may be conducted by the Federal reserve agent without charge and without reference to the Board.

5. The Federal reserve agent will continue to furnish the Board with an analysis on F. R. B. Form 212 of each state member bank examination report received by him whether made by State authorities or under his own supervision, unless in some exceptional case it is desired that the Board should have before it the complete report of examination.

6. If the Federal reserve agent has 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 the agent to duplicate this work.

7. If this supervision is not conducted by State authorities the Federal reserve agent is directed to take such action, as in his opinion, will discharge the responsibilities of the Board.

8. When a State member bank fails to correct irregularities within a reasonable time so as to show material 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.

This letter supersedes and repeals the letter of January 26, 1929 (X-6223) on the same subject.

Very truly yours,

R. A. Young,
Governor.

TO ALL FEDERAL RESERVE AGENTS.