FEDERAL RESERVE BOARD

WASHINGTON

X-7062

January 18, 1932.

SUBJECT: Depreciation on Securities Held by State
Member Banks.

Dear Sir:

There is enclosed herewith, for your information and

guidance, copy of a letter addressed by the Federal Reserve

Board to the Federal Reserve Agent at Minneapolis in response

to an inquiry received from his office, copy of which is also

enclosed, with regard to depreciation on securities held by

State member banks.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO ALL FEDERAL RESERVE AGENTS.
(Except Minneapolis)

C O P Y

X-7062-a

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January 14, 1932.

Mr. John R. Mitchell,
Federal Reserve Agent,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Mitchell:

This refers to Mr. Bailey's letter of December 23, 1931, inquiring as to the attitude of the Federal Reserve Board toward depreciation on securities in State member banks of the Federal Reserve System, in the light of the instructions issued to national bank examiners by the Comptroller of the Currency, under date of December 18, 1931, that, while bonds should be rated and appraised as heretofore, no part of the depreciation, except that upon defaulted bonds, should be regarded as a loss and shown as such on page 11 of the form for reports of examinations of national banks.

The Board believes that, in making examinations of State member banks and in analyzing reports of examinations of these institutions made by State authorities, it would be desirable for the Federal reserve banks to set forth the entire amounts of depreciation on securities, grouped according to the ratings of the issues. The amounts of depreciation on stocks and on defaulted bonds only should be shown as losses.

Of course, in negotiations with State member banks and State authorities relative to corrective action, all depreciation on stocks

and bonds should be given consideration and no favorable opportunity to

obtain action calculated to strengthen banks whose depreciation on stocks

and bonds exceeds or nearly equals the amount of their surplus and un-

divided profits should be overlooked. Such banks also should be impressed

with the advisability of deferring the payment of further dividends until

all losses and all depreciation on stocks and bonds and other doubtful

assets have been charged off or otherwise eliminated or until adequate

reserves have been created. A helpful and tolerant attitude should be

preserved at all times, however, and care should be exercised to avoid

doing or saying anything which might needlessly destroy or impair the

morale of bank directors and officers.

<div style="text-align: center;">Very truly yours,</div>

Chester Morrill,
Secretary.

C O P Y   X-7062-b

FEDERAL RESERVE BANK OF MINNEAPOLIS

December 23, 1931.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

A few months ago the Comptroller of the Currency
adopted a plan and issued instructions to all Chief Examiners
relative to setting up bond depreciation in examination reports.
Under that plan the depreciation on bonds rated B3 or better
was disregarded, depreciation on bonds rated under B3 was set
up in the recapitulation 75 per cent doubtful and 25 per cent
loss, and all depreciation on defaulted bonds was set up as a
loss.

In the examination of state member banks, we have
attempted to follow as closely as possible the Comptroller's
plan relative to bond depreciation. This, however, appears
to differ widely from the policies of the various State Super-
intendents, and in fact, we find no two Superintendents in agree-
ment on this important subject. Recently we have been advised
that the Comptroller has greatly liberalized his original bond
depreciation policy, and from now on will classify as a loss
only the depreciation on the defaulted issues. We would like
very much to have the Board's idea on this subject, with advice
as to how we should handle the bond depreciation in future in
the examination of state member banks.

Yours very truly,

(Signed) F. M. Bailey

F. M. Bailey
Asst. Federal Reserve Agent

FMB:EP