

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7113

March 9, 1932.

SUBJECT: Applications of State Banks and Trust  
Companies for Membership.

Dear Sir:

There is attached hereto, for your information and guidance, a copy of a letter to the Federal Reserve Agent at the Federal Reserve Bank of Richmond, with regard to the treatment of depreciation in the investment accounts of state banks and trust companies applying for membership in the Federal Reserve System.

Very truly yours,

Chester Morrill,  
Secretary.

Enclosures.

TO ALL F. R. AGENTS EXCEPT RICHMOND.

March 7, 1932.

Mr. W. W. Hoxton,  
Federal Reserve Agent,  
Federal Reserve Bank of Richmond,  
Richmond, Virginia.

Dear Mr. Hoxton:

Receipt is acknowledged of your letter of February 24, 1932, with regard to the treatment of bond depreciation of a state bank in the Fifth Federal Reserve District which contemplates making an application for membership in the Federal Reserve System.

You refer to the Board's letter of June 19, 1931 (X-6914), advising of the adoption by the Board of a policy of requiring that at the time of admission of a state bank or trust company to membership in the Federal Reserve System, it shall be free from all known losses and depreciation, so that, on the date its membership becomes effective, its statement will reflect as nearly as possible the value of its assets; and also to the Board's letter of January 18, 1932 (X-7062), advising that, in connection with the examination of state member banks of the Federal Reserve System, the amounts of depreciation on stocks and on defaulted bonds only should be shown as losses. You inquire whether the policy set forth in the letter of January 18, 1932, relative to state bank members of the Federal Reserve System is also applicable to banks applying for membership in the Federal Reserve System.

In the opinion of the Federal Reserve Board, there is justifi-

cation, under present conditions, for differentiating in the treatment of bond depreciation which may exist in banks already members of the Federal Reserve System and that which may exist in the case of banks which are applying for admission to the System. However, in some recent cases the Board has not insisted upon strict observance of the policy outlined in its letter of June 19, 1931, and has approved applications for membership in the System made by banks whose managements were competent and whose affairs otherwise were in generally satisfactory shape, upon condition that they should, prior to admission to the System, charge off all known losses and all depreciation on bonds other than those classified in the four highest grades by a recognized investment service organization regularly engaged in the business of rating or grading bonds. Therefore, while no definite statement can be made in advance, it is probable that the Board would be disposed to extend similar treatment to the bond depreciation of other banks applying for membership in the System if their managements and condition were generally satisfactory in all other respects. It is suggested that you consider these aspects of the matter carefully and advise the Board fully with regard to them in connection with any recommendation that you may submit in any case in which you feel that the Board would be justified in making similar allowance for bond depreciation.

Very truly yours,

Chester Morrill,  
Secretary.