

FEDERAL RESERVE BOARD

270

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-8086

October 19, 1934.

SUBJECT: Examinations under Section 21 of
the Banking Act of 1933.

Dear Sir:

In connection with examinations of private banks and bankers, made by the Federal reserve banks under the provisions of section 21(a)(2) of the Banking Act of 1933, questions have been raised as to the responsibility of the Federal reserve banks and as to the action, if any, which should be taken by them regarding:

1. Protection of depositors when the report of examination discloses an insolvent condition.
2. Correction of other unsatisfactory conditions.
3. Reporting apparent violations of the criminal provisions of State laws.

Under the provisions of said section 21(a)(2) a Federal reserve bank has no authority to require the correction of unsatisfactory conditions in private banks submitting to examination and is under no statutory duty to take any action for the protection of depositors, to correct unsatisfactory conditions, or to report to the State authorities apparent violations of the criminal provisions of State laws. The Board feels, however, that each Federal reserve bank should exert its best efforts to induce private banks to correct

any unsatisfactory conditions disclosed by the examinations made by the Federal reserve bank and otherwise to protect depositors against unsound and unlawful banking practices. The Board, therefore, expects each Federal reserve bank to adopt a constructive attitude in this respect and to endeavor to obtain such corrective action in the case of private banks as may appear necessary or desirable in the circumstances. The Board also believes that it is proper for a Federal reserve bank to report apparent violations of criminal provisions of State laws to the appropriate State authorities.

Very truly yours,



L. P. Bethea,
Assistant Secretary.

TO ALL FEDERAL RESERVE AGENTS.