

FEDERAL RESERVE BOARD

WASHINGTON

July 16, 1934.
B-997.ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Net earnings on funds received from
the Secretary of the Treasury under
Section 13b of the Federal Reserve Act.

Dear Sir:

The agreement recently entered into with the Secretary of the Treasury, in accordance with the provisions of subsection (e) of Section 13b of the Federal Reserve Act, provides that your bank shall pay to the United States all dividends, all payments on liquidation, and all other proceeds of its stock in the Federal Deposit Insurance Corporation, for which dividends, payments, and other proceeds the United States shall be secured by such stock itself up to the total amount paid to the bank by the Secretary of the Treasury under Section 13b; that in the event such dividends, payments, and other proceeds in any calendar year do not aggregate 2 per centum of the total payment made by the Secretary of the Treasury under Section 13b, your bank will pay to the United States in such year such further amount, if any, up to 2 per centum of said total payment as shall be covered by the net earnings of the bank for that year derived from the use of the sum so paid by the Secretary of the Treasury; and that your bank will continue such payments until the final liquidation of said stock.

The agreement also provides that all funds paid to your bank by the Secretary of the Treasury and not invested in loans, discounts, advances or purchases under Section 13b of the Federal Reserve Act will, insofar as

practicable, be invested in any other income producing investments lawful for a Federal Reserve bank.

In order to carry out the provisions of the Federal Reserve Act and the agreement with the Secretary of the Treasury, it will be necessary for your bank to keep such accounting records as will enable it to determine the net earnings of the bank derived from the use of the funds paid to the bank by the Secretary of the Treasury under Section 13b. The net earnings from such funds should be determined in the following manner:

From the total earnings derived from the use of the funds received from the Secretary of the Treasury shall be deducted:

(1) Outside expenses (i.e., expenses other than office expenses and expenses of the advisory committee) incurred in connection with the making or collecting of specific loans, discounts, advances and purchases out of such funds, except such expenses as are paid by the borrowers.

(2) Such percentage of expenses of the advisory committee, of outside expenses not provided for in item 1, and of total office expenses of the unit handling loans, discounts, advances, purchases, and commitments under Section 13b as the average daily holdings of such loans, discounts, advances and purchases made out of funds received from the Secretary of the Treasury bear to the total average daily holdings of loans, discounts, advances, purchases and commitments made by such unit under Section 13b. Office expenses should comprise all expenses (other than expenses of the advisory committee and outside expenses) in connection with the making of loans, discounts, advances, purchases and commitments under Section 13b, including salaries of employees and of officers in direct charge of the unit making such loans, discounts, advances, purchases, and commitments and a fair charge for rent, light, heat, power,

water, janitor service, elevator and cleaning service, repairs and alterations, and rental of furniture and equipment.

(3) Actual expense of making the income producing investments referred to at the end of paragraph 3 of the agreement with the Secretary of the Treasury.

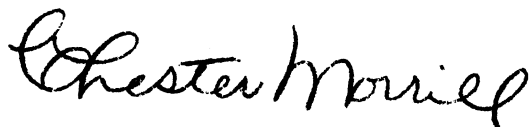
(4) Losses on loans, discounts, advances and purchases made out of the funds paid to your bank by the Secretary of the Treasury under Section 13b, charged off with the approval of the Federal Reserve Board. If expenses and losses charged off exceed income the excess thereof over income should be deducted from the amount received from the Secretary of the Treasury as reported on the bank's daily balance sheet, item "Surplus (Section 13b)". Recoveries on losses previously charged off should be credited to current net earnings on funds received from the Secretary of the Treasury if the losses to which the recoveries relate were charged to current net earnings. If the losses to which the recoveries relate were charged to "Surplus (Section 13b)" the recoveries should be credited to that account.

There is inclosed herewith a supply of Form B-20 for your use in submitting an annual statement relating to the employment of funds paid to your bank by the Secretary of the Treasury under Section 13b of the Federal Reserve Act. This statement should be transmitted in duplicate to the Federal Reserve Board within 10 days from the end of the calendar year, one copy of which, when approved by the Federal Reserve Board, will be delivered to the Secretary of the Treasury.

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The Board understands that the Treasury Department has in course of preparation regulations governing payments to the Federal Reserve banks under Section 13b of the Federal Reserve Act, and pending completion of such regulations the Treasury Department has not passed upon the instructions contained herein or the accompanying form B-20.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO ALL GOVERNORS*