



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

S-53

Sec. 5136 R.S.-10

501

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

December 22, 1937.

SUBJECT: Amortization of Premiums on Bonds with  
Call Prices under Comptroller's Regula-  
tions Regarding Investment Securities.

Dear Sir:

Inclosed for your information are excerpts from  
a letter dated December 15, 1937, from Mr. Paulger,  
Chief of the Board's Division of Examinations, to the  
Vice President in charge of the Examination Department  
of one of the Federal Reserve banks regarding the amor-  
tization of premiums on bonds with call prices under the  
provisions of the regulations of the Comptroller of the  
Currency governing the purchase of investment securities.

Very truly yours,

L. P. Bethea,  
Assistant Secretary.

Inclosure.

TO PRESIDENTS OF ALL FEDERAL RESERVE BANKS.

S-53-a  
Sec. 5136 R.S.-10

December 15, 1937.

Mr. \_\_\_\_\_, Vice President,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

Reference is made to the report of examination of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_, as of September 13, 1937, and your letter of  
December 2 with respect thereto.

\* \* \* \* \*

It is noted, also, that a further violation of section 5136 was reported by reason of three issues carried by the bank at amounts in excess of the call price of the bonds. Included in the list, however, was one issue with respect to which the following comment was made: "Not callable until 1947. Being amortized to call price by first call date." It appears that the examiner may have been under some misapprehension with respect to the provisions of the regulations of the Comptroller of the Currency regarding premium and call price. It is understood that the requirement of the regulations that "the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security" refers to the price at which the security may then be redeemed and not to some future call price. Paragraph No. 5 in Bulletin No. 1, dated June 9, 1936, of the Comptroller of the Currency, which reads as follows, bears specifically on this point.

"Amortization of premiums on 'investment securities' purchased by bank. -- Some banks have misunderstood the amortization requirements of the regulations as respects securities purchased at a price exceeding par. It should be made clear that the premium need only be gradually amortized at regular intervals over the life of a security to the end that at its maturity the security will not be carried at an amount in excess of par. If the security is callable at a given price above par, the rate of amortization will have to be such as to have gradually extinguished the premium down to call price by the call date, regardless of whether the security is in fact called on that date. Thereafter, if not called, amortization shall continue from that point to maturity on the same basis as though the security had been purchased on the call date at the call price."

It is suggested that this matter be called to the attention of the examiners as it has been noted that in some other reports of examination bonds carried in excess of the call price have been listed as violations, although the bonds were not callable until some time in the future. You will appreciate, I am sure, that these comments with respect to premiums are not intended to suggest that in some cases the elimination of premiums, even if not required by law, may not be altogether desirable and in accordance with sound banking practice. These comments are intended only to guard against the treating of matters as violations of the law and the Comptroller's regulations when in fact they are not violations.

\* \* \* \* \*

Very truly yours,

(Signed) Leo H. Paulger

Leo H. Paulger,  
Chief, Division of Examinations.