

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

March 25, 1938.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



Subject: Amortization of premiums on bonds
under the Comptroller's regulations
governing the purchase of investment
securities.

Dear Sir:

Inclosed for your information are copies of two letters dated March 24, 1938, from Mr. Paulger, Chief of the Board's Division of Examinations, regarding the amortization of premiums on bonds under the provisions of regulations of the Comptroller of the Currency governing the purchase of investment securities.

It will be appreciated if you will have this letter as well as letter S-53, which relates to a different phase of the same subject, brought to the attention of your examiners.

Very truly yours,

A handwritten signature in dark ink, appearing to read "L. P. Bethea". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

L. P. Bethea,
Assistant Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

S-80-a
Sec. 5136 R. S.-11

March 24, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

A schedule of "Issues on which premium is not being amortized to maturity as required" was shown on page 12-E of the report of examination of _____ State Bank, _____, as of January 31, 1938. Included in the schedule were four issues which, according to the schedule, had been purchased prior to February 15, 1936, the date of the promulgation of the Comptroller's regulations governing the purchase of investment securities.

The provisions of the Comptroller's regulations governing the purchase of investment securities relate only to securities purchased after the effective date of the regulations and do not apply to securities held at the time the regulations were promulgated. It is suggested, therefore, that this matter be brought to the attention of your examiners in order that such errors may be avoided in the future.

You will appreciate, I am sure, that this letter is not intended to suggest that the amortization of premiums, even if not required by law, is not altogether desirable and in accordance with sound banking practice. The letter is written only to guard against the treating of matters as violations of the law and the Comptroller's regulation, when actually they are not violations.

Very truly yours,

(Signed) Leo H. Paulger

LEO H. PAULGER,
Chief, Division of Examinations.

March 24, 1938.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

The following comment appears on page 21 of the report of examination of _____ Loan and Trust Company, _____, _____, as of January 28, 1938:

"In order to comply with the regulation of the Comptroller of the Currency, to which State member banks are subject, it is necessary to amortize the premium on all bonds carried above par, so that the premium will be extinguished before the maturity of the securities. This situation was discussed with the management and it was stated that the premium on three issues will be charged out."

The above comments were inapplicable in the situation inasmuch as the only bonds carried at a premium were U.S. Treasury Bonds and Federal Farm Mortgage Corporation Bonds (which, for the purpose of Section 5136, are considered as obligations of the United States) and such bonds as exempted securities are not subject to the provisions of the Comptroller's regulations governing the purchase of investment securities. It is suggested, therefore, that this matter be brought to the attention of your examiners in order that such errors may be avoided in the future.

You will appreciate, I am sure, that this letter is not intended to suggest that the amortization of premiums, even if not required by law, is not altogether desirable and in accordance with sound banking practice. The letter is written only to guard against the treating of matters as violations of the law and the Comptroller's regulation, when actually they are not violations.

Very truly yours,

(Signed) Leo H. Paulger

LEO H. PAULGER,
Chief, Division of Examinations.