



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-112
325

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

August 24, 1938.

Dear Sir:

Inclosed are two copies of the revised form of report of examination which the Board has approved for use, effective September 1. A supply of the forms sufficient to provide for examinations during the next few months is being forwarded by express. Additional supplies may be obtained from the Board's Division of Examinations upon request. Advice of the cost of the forms will be sent to you as soon as possible.

In revising the form of report an effort has been made to conform strictly with the spirit, as well as with the letter, of the recent agreement regarding bank examination procedure as announced by the Secretary of the Treasury and published in the July Bulletin. The agreement refers specifically to the classification only of loans and depreciation in securities, and the definitions of the loan classifications as set forth in the agreement have been copied verbatim at the head of the schedule on page 11. On page 3 of the report, however, brief general definitions of the classifications applicable to all types of assets have been given. The definitions of classifications I, III, and IV as shown on page 3 are identical with the definitions incorporated in the revised forms of the Comptroller of the Currency and the Federal Deposit Insurance Corporation. The definition of classification II on page 3 is similar to that in the Comptroller's report but differs from the definition in the Federal Deposit Insurance Corporation report in that it contains no specific reference to securities, while the Federal Deposit Insurance Corporation definition includes "securities which lack recognized investment merit" among the assets to be classified as II.

It will be expected that the classifications of assets by examiners for the Federal reserve banks will be in accordance with the definitions set forth in the report and that the examinations will be conducted in strict conformity with the terms, spirit, and purposes of the agreement. In this connection, it is requested that, especially at first until the use of the revised form is well established, the officers in charge of the bank examination departments

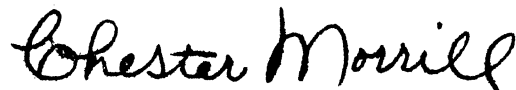
review the reports carefully, particularly the classifications of assets, in order to insure that the examinations are being made in conformity with the agreement.

Included in the supplies furnished are some pages without headings but ruled for columns and some blank pages to be used for such supplemental schedules or comments as may be considered necessary or advisable, thus providing flexibility in the form of report. One of the purposes of having the forms printed in Washington, however, is to attain uniformity in the form of reports used by the twelve Federal reserve banks and it is requested, therefore, that no schedules be incorporated in a report of examination which would be inconsistent with the schedules as printed in the forms furnished.

Attached is a memorandum prepared by the Board's Division of Examinations with respect to some details in connection with the new form. A separate letter will deal with the appraisal of securities and the classification of depreciation in securities.

A supply of the forms for use in the examination of trust departments will be forwarded as soon as they are available, which, it is anticipated, will be within the next two weeks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

August 24, 1938

Memorandum with respect to the revised form
of report of examination (F. R. 410-38)

In the interest of uniformity the following comments, explanations, and suggestions are offered with respect to certain details of the revised form of report of examination which has just been sent to the Federal reserve banks for use effective September 1, 1938.

Binding

The forms have not been punched, as it is anticipated that in most cases the reports will be of a size which will permit of their being stapled. In this connection it is understood that there are hand machines which will staple reports up to approximately one-half inch in thickness. Larger reports may be tied with string somewhat in the fashion of the old shoestring binders. Included with the forms sent out was a supply of bookbinders' linen adhesive tape, which needs only to be moistened before application and does not require the use of a press. The tape has been furnished in two widths, 2 inches and 2½ inches. A 3 inch width can be obtained if necessary.

Transit Number

The transit number at the upper right hand corner of the pages is merely for identification purposes in assembling the reports and ordinarily the number will not be visible in a bound report.

Index

Schedules to be omitted. It will be noted that under the captions "Affiliated organizations" and "Loans and discounts" certain schedules are listed followed by the parenthetical phrase "if any". Pages 21(a), 11(a), 11(b), and 11(c) are to be inserted in a report only if a schedule on the page is to be filled out. If any schedule on such pages is not used, the fact should be noted by the insertion of the word "none" in the index.

Trust Department. The following notations on the index should be made as applicable -

"None" - If bank has no trust department or if it is not exercising trust powers

"Green Section" - If report of the trust department is attached

"Separate report" - If a separate report is submitted

"Not examined" - If such be the case.

Page 1

Other Cash Items in Process of Collection. This should include only items which conform to the definition of "Cash items in process of collection", as given in Regulation D.

Valuation Reserves. Reserves should be treated as valuation reserves, i.e., deducted from the respective asset accounts, only if the bank treats them in such manner in its published reports, and all reserves so treated by the bank should be regarded as valuation reserves for the purpose of the report of examination.

Reserve for Amortization of Bond Premium. If the required provision for amortization of bond premiums is made through credits to a reserve account rather than through charge off, such reserve should be treated in the report of examination as a valuation reserve if so treated by the bank. If the bank, however, does not deduct such reserve from the asset account, the reserve should not be included with reserves for contingencies or with other segregations of capital account but should be shown as a separate item among "Other liabilities".

Page 1-A

Page 1-A should not be included in the reports forwarded to the banks examined but should be included in the reports forwarded to the Board.

Page 2

Page E

The signature line has been omitted from these pages in order that the signature of the examiner may come at the conclusion of his remarks, whether on these pages or on continuation sheets.

Page 12

It will be noted that page 12 is furnished in alternative form.

The regular page 12 headed "Real estate loans subject to special comment" is to be used where all loans subject to classification

as II, III, or IV are listed on page 11, and page 12 will be used, as it has been in the past, as a memorandum of (1) loans which should be carried as other real estate; (2) loans which are considered as potential other real estate; and (3) loans which have been taken or are held in violation of statutory provisions. This is expected to be the regular procedure and to be used where practicable.

The alternative page, 12-X, headed "Real estate loans subject to special comment or classification" is furnished, however, for use in cases where, because of the nature of the bank's business, the seriousness of the real estate loan problem, or other good reason, it is considered advisable to list real estate loans subject to classification in a separate schedule. In such cases, of course, the totals of the classifications of the real estate loans should be transferred to page 11 and then included in the grand total of all loans classified as II, III, and IV.

Continuation Sheets

Continuation sheets should be designated as 11-(1), 11-(2), etc., as combinations of numbers and letters such as 11(a) have been used for designation of supplemental schedules.

Page C

It will be noted that the answers to questions 7, 8, and 9 on page C of the confidential section will summarize all violations of the Federal statutes, the Board's regulations, or the conditions of membership as disclosed by the examination. This is in accordance with suggestions received that a complete list of any such violations be shown in one place in the report.

Reorders

The forms have been printed by multilith process in the Board's duplicating department and, as stated in the Board's letter, S-112, additional supplies may be obtained from the Board's Division of Examinations. It is requested that needs for additional supplies be anticipated and that orders be sent in sufficiently in advance of requirements to permit their being handled in the ordinary course of business rather than as rush orders which might interfere with other work.

Orders should refer to the form number which appears in the upper left hand corner of the page.