



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-378

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ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 4, 1939.

CONFIDENTIAL

Dear Sir:

For the confidential information of your bank pending publication of the Annual Report of the Board of Governors of the Federal Reserve System, there is inclosed with this letter a copy of the recommendations of the Federal Advisory Council to the Board of Governors of the Federal Reserve System during the year 1938.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

RECOMMENDATION OF THE FEDERAL ADVISORY COUNCIL TO
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

May 17, 1938.

TOPIC: Unification of Bank Examinations.

RECOMMENDATION: The Federal Advisory Council has given careful consideration to the views of the Board of Governors of the Federal Reserve System on the subject of the classification of loans in reports of bank examiners and the treatment of investment portfolios in such reports.

It is the sense of the Council that the general plan as to the classification of loans which is now followed should be continued; that the heading "slow" should be altered, but that in Column 1 there should be brought together loans not presently considered doubtful or losses, but of a type which a bank would not and should not currently make, and that the total of such loans should be brought together in the Recapitulation Sheet. "Doubtful" and "Loss" columns should be continued as at present.

The Council also believes that the entire investment portfolio of all banks should be listed, priced, and totaled and that this information is necessary if the directors of banks generally are to have an adequate picture of the banks' condition. This is particularly true since at the present time the investment portfolio of the average bank represents a large percentage of its total assets.

The Council also feels that the difference between market value and carrying value in the case of all defaulted bonds, stocks, and non-defaulted bonds of low grade should be set up as loss or doubtful. Unless the market value of the total investment portfolio is in excess of carrying value, the bank should be required either to set up adequate reserves to cover depreciation on such items, or to charge it off.

The Council does not believe that market depreciation in securities of high grade should be set up as "loss" or "doubtful" by the examiners. It does believe, however, that where such market depreciation exists, that unless the total market value of the investment portfolio is in excess of its carrying value, the examiners should use their influence to have the bank set up reserves sufficient to bring the carrying value of the investment portfolio down to at least market value. The bank should be given amply reasonable time to create such reserves.

The Council believes that the Comptroller's regulations regarding marketability and character of investment securities which a bank can purchase should be liberalized and that all reference to classification by manuals should be omitted therefrom.

The Council would further favor an amendment of the law so as to remove the requirement of marketability from investment securities which a bank could purchase. The Council believes that the examiners could and should see that banks in making investments do not acquire an undue percentage of non-marketable investments in relation to their total assets and capital funds.

RECOMMENDATIONS OF THE FEDERAL ADVISORY COUNCIL TO
THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

November 29, 1938.

TOPIC No. 1. Services to Member Banks.

RECOMMENDATION: In answer to a request made by the Board of Governors of the Federal Reserve System at its meeting with the Federal Advisory Council on February 15, 1938, the Federal Advisory Council, under date of May 17, 1938, presented a report on "How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways?" The survey in question was a compilation based on material furnished by the member banks of the Federal Reserve System.

Subsequently, the Secretary of the Board of Governors in a letter, dated August 3, 1938, requested the Council to state its own views in respect to the problems discussed in the report of May 17, 1938. In answer to this inquiry, the Council submits the following statement.

The Federal Advisory Council has divided the subject under discussion into two parts:

- (a) Subjects dealing with the mechanical services of the Federal Reserve System, and
- (b) Policies which affect the member banks.

As regards mechanical services, the Council has the following suggestions to make:

- (1) It would seem desirable to the Council that the closing hour of each Federal Reserve Bank be extended in accordance with the need of each district.
- (2) The Council suggests the elimination of the present requirement of the sorting and distribution of items offered for credit.
- (3) It would seem desirable to expand the use of the air mail.
- (4) It would be helpful if the return of unpaid items take place more quickly than at present.

In respect to more general policies, the Council offers the following suggestions:

- (1) That the Board be requested to continue its efforts to bring about greater uniformity in examinations and in the forms of the reports required.

- (2) That the Federal Reserve Banks be allowed to exercise more autonomy in their respective districts.
- (3) That the Board encourage and foster more frequent contacts on the part of the officials of regional banks with member banks and to that end stockholders' meetings be held in each Federal Reserve district. The Council does not believe it necessary that the arrangements for such meetings be the same in each district.
- (4) That the Board of Governors attempt classification and simplification of the rules and regulations issued by it.

TOPIC No. 2. Assignment of Claims on the United States.

RECOMMENDATION: The Federal Advisory Council requests the Board of Governors of the Federal Reserve System to recommend to the proper authorities an amendment to that part of section 3477 of the Revised Statutes of the United States which is Title 31 U.S.C.A., Sec. 203, which makes null and void all transfers and assignments of any claims on the United States. The amendment should permit the assignment of claims where legitimate credit has been extended, excepting in those cases where claims arise in consequence of torts, tax refunds, or the like.