INSTRUCTIONS
TO
EXAMINERS AND ASSISTANT EXAMINERS
OF THE
Federal Deposit Insurance Corporation

Confidential
This pamphlet of instructions to examiners and assistant examiners of the Federal Deposit Insurance Corporation remains the property of the Corporation. A copy is loaned to each examiner and assistant examiner for the period of his services only, and must be returned to the Corporation when for any reason the examiner or the assistant examiner to whom it is loaned severs connection with the Corporation.
CONFIDENTIAL INSTRUCTIONS

TO

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OF THE FEDERAL DEPOSIT INSURANCE
CORPORATION

EXAMINATIONS

1. Examinations to be made without notice.—The examination of the bank, to be effective, should always be made without any previous notice or intimation to the officers or anyone else connected with the bank of the contemplated examination.

2. When an examination should be commenced.—An examiner should, as far as possible, enter the bank to be examined at the hour of closing the day’s business or in the morning just before the bank opens for business. An examination should not be commenced between the opening and closing of the day’s business if it is practicable to avoid it, as it is very difficult to obtain a satisfactory comparison of the assets with the books while business is in progress.

3. Confidential information.—Reports of examiners are strictly confidential communications to the Corporation. All information obtained by the examiner relative to any bank examined must also be regarded as strictly confidential, to be imparted to no one except the Corporation, the supervising examiner, and the officers and directors of the bank examined; and no opinion should be expressed to others or comment.
made in regard to the condition of any bank examined except by special permission of the Corporation. All requests for information concerning the condition of a bank or any of its affairs should be courteously answered by referring the questioner to the supervising examiner.

Examiners should observe a proper reticence in regard to examination work and relations with the Corporation, and it is improper to discuss with anyone not connected with the Corporation information which may be learned or facts which may be ascertained in the course of examinations, or to indulge in gossip in regard thereto. Outsiders should not be taken into the examiner's confidence in regard to any official matters whatsoever.

All information pertaining to each bank must be kept in strict confidence by any assistant employed.

4. General plan to be followed in making examinations.—Upon entering the bank the examiner should take custody of all assets, consisting of the cash on hand, cash items, loans and discounts, stocks, bonds, and other securities either owned or held as collateral for loans, or any other assets which may be called for by the books, the examination to be conducted in every way so as to cause the least possible interference with the regular business of the bank.

Upon entering a teller's cage the examiner should obtain possession of the cash items at the earliest possible moment and retain possession thereof until the cash itself has been balanced and the list very carefully scrutinized, since cash items offer the best opportunity to cover quickly any shortage that might exist in the cash.

To prevent a bank officer from handing the examiner the same money or securities twice, possession should be taken by the examiner of all assets of the bank at once, and released only when each item has been verified.
Sufficient cash and securities for the transaction of current business should be counted and checked out to the teller, and the safes should be sealed by pasting an adhesive paper seal or label bearing the signature of the examiner over the edge of the door of each compartment, to prevent its being opened without breaking the paper.

Where nickels and other minor coins are found in large quantities, the contents of the packages may be examined and the value determined by a careful estimate of the bulk without making an actual count of the number of pieces contained in each package.

5. Representative of bank to be present when cash is counted, etc.—In all examinations made, it is insisted that an officer or responsible employee of the bank under examination shall be present the entire time the examiner is counting the cash and examining the bonds and securities owned and those held by the bank as collateral, on deposit, or for safekeeping. This requirement is made in order that ground for subsequent criticism may be avoided in connection with any of the assets of the bank.

6. Assistance from bank clerks prohibited.—Under no circumstances should clerks employed by banks under examination be permitted to assist in counting cash, listing and verifying loans and discounts, verifying certificates of deposit, or cashier’s checks, or taking trial balances of the individual ledger. Lists of overdrafts and data of any kind furnished by officers or employees of banks under examination must always be checked by the examiner or his assistant with the original records of the bank from which such data are taken. For work other than that above indicated no objection will be made to clerks in banks assisting the examiner when it is agreeable to the officers of the bank under examination.

7. Precautions as to time lock on vault.—The examiner should see if the time lock is set for the hour
at which he arranges to be present the next morning. If the vault or safe has no time lock the examiner should seal the door of the vault or safe to prevent its being opened without his knowledge.

8. *To facilitate examination.*—The examiner will request from the president or cashier the information as listed on Corporation form Bx-1, as follows:

(a) A typewritten list, alphabetically arranged, of officers, directors, and employees. Opposite each name give number of shares of bank's stock owned and par value; number of years with bank, and annual salary. For directors give occupation and estimated net worth.

(b) A list of firms in which any director, officer, or employee is interested which have liability to the bank. Opposite the names of such firms, place the names of director, officer, or employee interested; also a list of corporations together with information called for above. (If an officer owns controlling interest in corporation, so state.)

(c) The minute book of directors and executive committee meetings. (The minutes should be properly signed.)

(d) Copy of last call report of condition; copy of last report of earnings and dividends; copy of bank's bylaws; stock certificate book and stock ledger.

(e) Typed list of charge-offs and recoveries by classification (loans, bonds, etc.) since last examination by Federal Deposit Insurance Corporation.

(f) A schedule of other real estate owned. The schedule should show separately each piece or parcel, with a brief description of any improvements thereon. Opposite each piece should be shown the amount at which carried on the books; the appraised value; encumbrances, if any; the assessed value; the amount of fire insurance; annual net income; the date and how acquired. (Appraisal should be in same form as required for real estate collateral.)
INSTRUCTIONS TO EXAMINERS, ETC.

(g) Deeds to all real estate owned, including banking house, and/or copies of leases for banking house.

(h) Insurance policies on bank building, furniture and fixtures, bank burglary, robbery, hold-up, forgery, safe-keeping, safe-deposit box, registered mail, public liability, and employees' surety bonds.

(i) Typed list, in duplicate, of assets pledged to secure borrowed money, showing to whom indebted; date of obligation; maturity; amount; and rate of interest paid.

(j) Typed list, in duplicate, of assets held elsewhere for safe-keeping, showing where and by whom held.

(k) A list of accounts due banks which are carried on the individual or savings ledgers.

(l) Typed list, in duplicate, of public funds held, showing name of the account, name and address of the official who signs thereon, rate of interest paid, amount on deposit, and indication after the amount whether secured or unsecured, and a detailed list of assets pledged securing each account.

(m) Copies of deposit waiver agreements, if any.

(n) Typed list of accounts receivable, if any.

(o) Hand to the president or cashier pages 1–A and 1–B for their completion and certification over their signatures.

REPORTS OF EXAMINATION

The examiner in the field must make every effort to expedite sending reports to the supervising examiner. The reports will be typewritten in the office of the supervising examiner and all verifications shall be made in that office. That these verifications may be properly made, each examiner shall send to the supervising examiner with the pencil copy of examination report, transcripts of the accounts with cor-
respondent banks from the date of the last statement on file, according to form prescribed by the Corporation.

The following accounts also should be carefully verified by use of the forms furnished by the Corporation:

- Balances of State, county, city, town, or other public officials.
- Accounts with all other banks.
- Collection items sent to other banks.
- Securities held as collateral to loans in other banks.
- Securities held elsewhere for safe-keeping, where personal visit by the examiner is not necessary.
- Bills payable.
- Rediscounts.
- Notes held elsewhere, such as participation loans held by correspondent banks, or notes in the hands of attorneys.
- All obligations for money borrowed in any other form, such as certificates of deposit, bonds borrowed, bonds or securities sold under repurchase agreement, and notes made or endorsed by directors for sole benefit of bank.

The examiner should attach to each report forwarded to the supervising examiner for typing a certificate in duplicate on form provided authorizing the supervising examiner to sign the typed reports. One copy of this authorization shall be attached to the original report and retained by the supervising examiner and the other copy attached to the typewritten copy sent to Washington.

The examiner should carefully read the printed instructions on the report blank in order that he may obtain all information called for, not only by the general instructions but also by special instructions on these blanks.

The examiner should include in each report all information which is deemed pertinent to the condi-
tion of the bank, whether or not it is specifically called for in the report blank or instructions.

When a situation arises in connection with the affairs of a bank concerning which the local examiner is in doubt, or desires advice, instruction or assistance, or any matter of great importance requiring immediate action in connection with an examination, the examiner in charge should promptly communicate with the supervising examiner by telephone, letter, or code telegram.

The examiner's pencil copy including all supporting schedules must be completed in a turn-key manner before leaving the bank under examination. The finished report is compiled from the pencil copy and all information requested and provided for in the report must be obtained during the examiner's visit with the bank and recorded in the examiner's pencil copy.

Page 1: Balance sheet.

The items listed and numbered under "Assets" and "Liabilities" conform to the balance sheet as adopted by the Board, and for sake of uniformity carry several captions that may be found in large national banks and State Federal Reserve member banks, but obviously will not be used in the examination of the smaller banks.

It will be noted that provision for a subtotal of items from 1 to 7 inclusive on the asset side will give, at a glance, a consolidated cash position of the institution, and likewise a subtotal on the liabilities side of items 1 to 9 inclusive will show the total aggregate of deposits, and a subtotal of items from 10 to 17 inclusive will include all other liabilities except the liabilities shown in the capital structure bracket.
It will also be noted that items 12 and 13 on the liabilities side will call for a contra entry to be made on the asset side where liabilities of the nature described are found to exist.

Attention is especially directed to the asterisk at line caption "Subtotal (1-9 inclusive)" which corresponds to the asterisk at the bottom of the balance sheet where you will include such proportion of deposits as may be for any purpose restricted. Details of the restricted deposits are called for on page 16 as well as waived deposits, if any, in cases of reorganized banks.

Page 1-a: General statement

Page 1-a is prepared for the examiner to hand to the president or the cashier of the bank on which is to be recorded the general statement of the assets and liabilities of the bank under examination, and to which the president, the cashier, or other proper officer shall certify over his signature in the manner provided for by the form.

Page 1-b: Questionnaire

Likewise, the questionnaire as contained on this form is to be filled in and certified to by the president, the cashier, or other proper officer in the manner provided for by the form.

Page 2: Officers and directors

Included in the respective schedules showing the directors', officers', and employees' direct and indirect liability, should be listed cash items and overdrafts as such liability may appear.
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Page 5: Loans and discounts in general

The questions listed on this page are considered pertinent and it is anticipated that the examiner in charge will answer fully interrogations pertaining to loans and discounts.

Page 6: Classification of loans

In order that uniformity may be had in measuring overdue paper as contrasted with the statutory bad debt section of the National Banking Act, this corporation has adopted: Overdue paper listed as "class A" to include loans on which the interest is past due and unpaid for a period of 6 months or more, unless amply secured and in process of collection; "class B" to include other loans which are overdue as to principal or interest for a period of less than 6 months and loans excluded from "class A" above. Other salient features of the schedule are explained at the top of the page.

Page 10: Real estate loans

As will be noted this schedule includes the total aggregates of loans and discounts secured by real estate mortgages and other liens on realty, as well as loans collateralized by mortgages on real estate, segregating first liens and all other junior liens as well as a break-down into four classifications. Furthermore, real estate loans subject to special comment are to be listed as indicated on the schedule in four specially grouped classifications with the groups segregated and numbered 1, 2, 3, and 4 respectively, as designated and described under the respective numbers. It is not deemed necessary to list real estate mortgages which are not subject to particular criticism.
Page 11: Recapitulation of bonds, securities, etc.

The schedule for recapitulation of bonds, securities, etc., has been arranged first by classifications, second by ratings, third by pledged and unpledged, and a recapitulation by groups to show that part of the depreciation which the examiner classifies as "Loss." This schedule makes for a uniform study and when prepared according to the schedule should assist the examiner in presenting the investment policy of the bank under examination to its board of directors.

Page 12: Bonds, securities, etc.

The examiner should indicate in column under "Remarks", opposite the individual issues, those bonds and securities which are pledged for bills payable, etc., or held for safekeeping elsewhere, by using symbols to designate to whom pledged or where held, giving key for symbols used.

9. Supplemental report of examination (confidential information).—Space is reserved for examiner's criticism, or comments and recommendations concerning specific elements of danger observed, such as (1) weak management; (2) weak board of directors; (3) impairment of capital; (4) losses exceeding capital structure; (5) high aggregate slow assets; (6) excessive investment in banking house; (7) excessive other real estate owned and potential other real estate; (8) excessive D.P.C. mortgages including junior liens; (9) excessive borrowings; (10) excessive amount of public funds; (11) excessive amount of assets pledged; (12) excessive investment substandard securities; (13) loans in excess of the statutory limit; (14) negligible cash position; (15) dangerous affiliations—designate; (16) weakened position due to
merger or purchase of another bank; (17) lack of earning power; (18) heavy loss of deposits; etc. (Such of the above elements of danger may be shown on p. 21 of the report as the discretion of the examiner may dictate.)

10. Management.—It will be noted that one page has been devoted to management, and space has been reserved for examiner's criticisms, or comments and recommendations concerning the intimate management of the bank and for recording the reasons substantiating such remarks which it is deemed advisable to incorporate among the criticisms, remarks, or recommendations called for on page 21 of the report. It is imperative that the Corporation be thoroughly informed as to the management of its member banks with the view to promoting stronger, more capable, and more efficient bank management than has heretofore existed.

Particular attention should be given to the condition and completeness of the credit files. Are they adequate, are they kept current and used in an intelligent manner as the basis of extending credit?

Does the record of payments indicate that the management understands the necessity of having a definite collection program instituted at the date of inception of the loan?

In the event the bank has been reorganized or consolidated, it is expected that the examiner will secure sufficient information to discuss the subject in his report as to any bearing or effect such reorganization or consolidation might have on the present situation.

Recommendations as to corrections of capital structure should be made here and clearly defined, showing sources of corrections already made.

11. Economic survey of local conditions.—Space has been provided for a résumé of the general local conditions, which it is expected that the examiner will carefully prepare.
12. Statement of liquidity and invested capital.—This statement is especially desirable for the Corporation's study from time to time, and inasmuch as it is constructed on the basis of liquidation it will be necessary that the examiner prepare the statement during his visit to the bank.

13. Trust department report.—There has been furnished a revised report for the examination of trust departments. Among other things the report segregates individual trusts from corporate trusts and provides a study of the trust department's affairs in general. The form of the report is believed to be self-explanatory.

It is the duty of the examiner to ascertain that—
(a) All trust assets are intact.
(b) They are held by the bank in a fiduciary capacity.
(c) The income has been collected on income-producing assets of the various trusts.
(d) Income has been properly distributed to the beneficiaries, or otherwise accounted for.
(e) All distributions of principal have been properly made.
(f) The earnings of the trust department have been properly accounted for.
(g) The assets of the trust department reflect lawful and efficient management of the trusts committed to it.

The examiner must either verify these items, or else see to it that the trust department is being operated in such a manner that a complete detailed check is unnecessary. In the small trust department, it is usually best to verify all of these items in detail, while in the larger department an examination of the assets and a partial check on the other items will be sufficient. Under some conditions, in a well-organized bank having a good system of internal control, it might be sufficient to inspect the assets and make a review of the routine in operation.
Examiners should report in all instances where the bank has sold real estate notes, or other investments, from its assets to any trust estates and where subject to criticism describe fully, stating whether the bank appears to have incurred a liability.

14. Securities held for safe-keeping.—Banks should be directed to keep a proper record or register of all bonds, stocks, notes, or other securities, not their property but in their custody, together with the names of the actual owners of such securities, showing whether left with the bank for safe-keeping or otherwise by customers, or left at the bank with any officer or director of the bank for any special purpose, or whether received by mail or express and from whom.

The records should be so kept that the examiner may be able to distinguish readily at all times between the assets belonging to the bank and those belonging to other parties, and to enable the examiner to account properly for every item found in the bank.

**Loans and Discounts**

15. Verification of loans and discounts and liabilities of directors and officers.—A list of loans and discounts should be made from the notes themselves, and the aggregate compared with the general ledger.

It should be determined whether notes not in the files of the bank have been rediscounted, placed as collateral for bills payable, or whether they are merely held free and unencumbered in the hands of correspondents, so that every loan made by the bank may be properly accounted for.

Whenever proforma notes are found to take the place of the original notes, due to the notes being hypothecated or for some other reason, a list of these should be made and verified by correspondence. The verification should include for what purpose the notes were hypothecated, such as for bills payable, forwarded for collection, etc.
It is advisable, particularly in a large bank, to list first the past due paper and notes maturing the next day, taking such data in regard to them as the examiner considers necessary, check them back with the note teller, and release them so that there will be as little interruption as possible of the next day's business, which is helpful both to the examiner and the teller. The note teller should be requested, however, to O.K. the examiner's adding-machine totals after he has checked the notes thus released.

Before proceeding to verify the account of loans and discounts, the examiner should obtain a list of the directors, officers, and clerks of the bank. Each note or bill on which the name of a director, officer, or employee appears as maker, endorser, or guarantor should be listed against each individual and reported in the schedule provided.

Where two or more directors or officers are jointly liable on the same note, the entire amount should be listed against each in the schedule. The total should be ascertained and a footnote made thereunder showing the excess of the joint liability over the amount of the note, and the final total given must agree with the amount of paper actually held.

In order to show whether the resources of the bank are being unduly or improperly used by the officers or directors for their personal benefit or that of enterprises in which they are interested, all paper upon which officers are liable should be very carefully scrutinized. The accounts of clerks should be carefully reviewed as well as the accounts of officers.

Examiners are especially directed to ascertain whether or not officers or directors of the bank are obtaining money or credit through "dummy" or indirect loans and should report all such cases.

Examiner should be careful to ascertain if the large lines of paper are continually carried by the bank or if paid up once or twice a year. Heavy
losses are likely to be sustained on continuous loans and they should be closely scrutinized, not for the purpose of arbitrarily discounting the value thereof, but to make doubly certain that none of the facts in relation thereto are overlooked in giving consideration to the value of the large continuous lines.

Special attention should be given to proving the collaterals for all loans, not only to ascertain whether or not the loans are "covered" but also to see that the required collateral is stated on the face of the note and is actually in the possession of the bank.

The examiner must confer with the managing officers and the directors as to the value of the paper and securities found in the bank, especially where there is any question or probable loss. Such estimates are not to be accepted as conclusive, but should be given due and full consideration.

16. Examination and verification of collateral.—The collateral held as security for loans should be examined and verified by comparison with the bank's collateral cards or register (or with the list made by examiner from the notes themselves where no cards are kept). Those verified should be laid aside within the examiner's view until the whole list is verified, to guard against the possibility of having the same collateral presented to him more than once.

In the examination of collateral special care should be exercised to see that all stock certificates and all registered bonds are properly assigned, or covered by powers of attorney executed in blank, properly dated, and properly witnessed.

17. Overdue paper.—All paper coming within this class should be carefully listed and inquired into with a view of ascertaining what loss, if any, will probably be sustained thereon. The name of the maker and endorser appearing on each piece of paper and the date of its maturity should be noted, and also a description of any collateral held as security therefor.
All paper which has passed the date of maturity without payment or renewal must be classed as "overdue." The same rule applies with regard to "demand" paper, if maturity is not fixed by the law of the State in which the bank is located, in that it falls due within a reasonable time. Where there have been no adjudications in the State in which the bank is located defining what is a "reasonable time", examiners will be expected to report as "overdue" all demand paper held for a longer period than that for which the bank usually accepts time paper, i.e., 6 months, etc.

18. Loans secured by mortgages or other liens on realty.—The examiner should satisfy himself that the title, mortgage, or other lien on the property is held by the bank, and that it is properly recorded in the name of or in trust for the bank, and not in the name of any other party. If recorded in the name of any other party, this fact should be reported. The examiner should also ascertain whether the bank holds the first lien as security; if not, the amount of any prior lien should be stated.

Where the fair value of the mortgaged property is in excess of the amount of the mortgage and other charges against the property, such mortgage shall be given full value, provided there is a margin sufficient to take care of additional carrying charges for a reasonable period including taxes, interest, and possible foreclosure costs—unless it is a case where the borrower has virtually abandoned the property, or the loan in other respects has bad characteristics. In such latter instances liquidating value shall govern.

The determination as to what is fair value, and the margin of security required, must be left to the judgment and discretion of the examiner. No fixed rule may be laid down that will apply arbitrarily to all cases. It is self-evident that distressed selling
values cannot be generally applied. On border-line cases difficult to appraise, a varying degree of consideration should be given, depending upon circumstances. The most favorable consideration should be given to loans of borrowers who are continuing with the mortgaged properties, anxious to retain ownership, and particularly borrowers having a satisfactory record for a substantial period prior to the present depression; in other words, those borrowers who are anxious to continue operations and whose present debts are heavy due solely to general conditions. This factor should be kept in mind when appraising farmers' paper in country banks, such as loans secured by second real estate mortgages plus first mortgages on crops, farming equipment, chattels, etc.

On the other extreme there will be cases where conditions surrounding the assets are so unsatisfactory that its appraisal must be made on a strictly liquidating basis.

19. Classification of "doubtful" assets.—Little, if any, value will be accorded the "doubtful" classification. Special care should therefore be given to items having doubtful aspects to determine as closely as possible the "loss" and the "recoverable" portions thereof. The following rule should be observed:

(a) The portion that may reasonably be expected to become a loss should be classified as "loss."

(b) The amount that may be reasonably expected to be salvaged should be classified as "good" or "slow."

(c) Any difference, the amount that is very difficult of determination, should be classified as "doubtful."

Habitual use of the doubtful column by an examiner is indicative of lack of decision. Reports of examination which reflect an undue use of a large volume of doubtful classifications will be returned to the examiner for reclassification before being copied.
20. Examination of bonds, stocks, securities, claims, etc.—All items of bonds, stocks, securities, etc., embraced under this head should be examined, actually verified by the examiner, and carefully listed. Careful inquiry as to the market value of each item should be made, and also whether or not interest is regularly paid. A verification of the estimated value of all such items held should be made by consulting market quotations published in the daily newspapers, or financial journals, as far as this may be practicable.

In case of municipal bonds of sound value where there has been no default and there is none impending, the examiner may disregard the market value of such bonds because the market on municipals is oftentimes narrow, and in some cases there is no market. It is felt that when the municipality is not in difficulty, the obligations should be treated as good and appraised at cost or par, whichever is lower; but in no event include a premium or a write-up value. In cases where the municipality is in default a careful review of the financial condition of the issuing unit should be made to determine just what intrinsic value exists or what salvage could reasonably be expected. Consideration should be given to the proportion of such holdings to total assets. One institution’s holdings may be so large that it is especially dependent on market value, while another’s holdings may be in such an amount that there would be little doubt of its ability to hold for liquidation or maturity.

The examiner should be satisfied as to the character and worth of all unlisted securities either owned by the bank or held as collateral by direct investigation or inquiry independent of any statement made by the officers of the bank relative thereto, especially scrutinizing those securities in which the officers or directors of the bank may be interested. Bonds, stocks,
and other items secured wholly by real estate and carried in this account should be listed separately and so classified.

The examiner should scrutinize the assignments on all bonds or certificates of stock or other securities which are not issued in the name of the bank to see that assignments are in proper form. Where securities held by the bank are not registered in the bank's name but in the name of other corporations or individuals, inquiry should be made and the condition called to the attention of the bank.

21. Examination of securities held elsewhere than at the bank.—When securities or cash are placed with a safe-deposit company, or with another institution, for safety and are not accessible to the holder without the presence of a representative of the owner bank, verification should be had by actual examination. If such securities or cash are held for safe-keeping at a distant point, the examiner in charge of the examination will request an examiner located or working in the city where such securities are held to make the examination. In either event, the examiner should take proper steps to prevent officers of the bank from having access to the securities between the time of examination of the bank and verification of such securities. The records of the institution where the safe-deposit box is located should be consulted by the examiner at the time of examination of the securities to ascertain whether an officer of the bank has in the meantime had access thereto.

Securities held by correspondent banks, as collateral or otherwise, will be verified by the supervising examiner as in the case of balances.

22. Other real estate owned.—Careful inquiry should be made from reliable sources regarding the value of the real estate owned. The examiner should be satisfied that the title to real estate is vested in the bank and the deed recorded.
If any considerable amount of real estate taken for debt is owned by the bank, the amount of taxes paid and net annual income should be stated, together with the assessed valuation of the property, and if improved, the amount of insurance.

23. Banking house and furniture and fixtures.—If the banking house is rented, ascertain the annual rental paid; if owned, whether title is in the bank and the deed recorded, whether covered by insurance, and whether or not the actual value is equal to the book value. The examiner should not arbitrarily fix a value on the banking house, but should be satisfied beyond a reasonable doubt as to its worth. If part of the bank building is rented for other purposes, ascertain the net annual rental received for the rented portion and whether any portion of the building is occupied by any other banking institution.

Ascertain and report in all cases the net amount which the bank receives on its investment in banking house, exclusive of rent paid by the bank, together with the percent of net earnings, including bank's own rent, giving amount of such rent and state whether the amount charged to rent on the part of the bank seems excessive. Report this data for each of the past 7 years, or for such shorter period as the figures may be available. If no amount is credited to banking house earnings on account of use of bank's own quarters, state for purposes of comparison what, in your judgment, would be a reasonable amount.

An estimate should be made of the value of the bank's furniture and fixtures to determine the correctness of book value. The examiner should also ascertain whether or not the banking house, furniture and fixtures, are mortgaged, or the former subject to ground rent, and, if so, what ground rent.

24. Vaults, safes, etc.—The examiner should ascertain and report whether the vault, vault door, locks, etc., are secure; likewise the safe or safes, if any.
Procedure in verifying, appraising, and checking the assets of a bank can be followed with a certain amount of precision and can be fairly definitely established. An important test of an examination, however, is in the determination, setting up, and classification of the full amount of the liabilities of the bank. A competent examiner is always alert to note indications which, when traced out, will lead to the disclosure of liabilities not reflected on the books of the institution. It is impossible to draft an all-inclusive set of instructions that will cover in detail this broad subject. It is necessary, therefore, to rely on the ingenuity of the examiner to ascertain all of the liabilities of the institution under examination. However, brief instructions relating to the usual liabilities appearing in every bank are as follows:

25. Profit accounts on individual ledger.—An examiner should ascertain and report whether any of the profits of the bank are carried on the individual ledgers under such titles as “Suspense account”, “Contingent fund”, “Stockholders’ account”, etc. Full details should be given relative to the manner in which any such account was created and is used.

26. Certificates of deposit—cashier’s checks and certified checks.—A list of all certificates of deposit, payable either on time or on demand, should be taken from the stubs, if any, otherwise from the certificate of deposit register, if any is kept, or from the account kept on the ledger, and the footing of all certificates outstanding should be compared with the balance of these items shown by the general ledger. Certified checks and cashier’s checks outstanding should be verified in the same way.

Canceled certificates should be called for and checked with the certificate register and stubs, if any, in order to ascertain whether the certificates marked paid on the register are in reality in the bank and canceled and the amounts agree with the stubs.
Certificates marked "void" or "canceled" on the certificate register should be called for in order to determine that they have not been used.

27. Trial balances of ledgers.—A trial balance should be taken in all cases.

It has been found in some instances that bank officers manipulate their ledgers after the beginning of an examination. The examiner should take every precaution to prevent such practices. In some cases, he may find it feasible to take possession of the ledgers as soon as he enters without detriment to the business of the bank.

28. Overdrafts.—In listing balances on the individual ledger all overdrafts should be noted in a separate column, and any large amounts, or those to officers or employees of the bank, or those which have been of long standing without change, should be especially noted and inquiry should be made as to the probable loss, if any, on such items. Overdrafts have no place in normal banking operations and represent an unsecured and unwarranted extension of credit on an account-receivable basis.

29. Profit and loss account and expenses.—The examiner should examine the profit and loss account of the bank as far back as the date of the previous examination, or for such period as he deems proper.

30. Capital stock.—The examiner should be fully satisfied that the bank's capital stock, or any increase therein, was actually paid-in in cash or in assets of sound value.

31. Stock ledger.—The stock ledger should be examined and the number of shares standing in the name of each shareholder listed and totaled to ascertain whether the aggregate of such shares equals the number of shares represented by the capital stock.

32. Stock-certificate book.—The stock-certificate book should be examined with a view to ascertaining
whether it is the custom of the bank to properly cancel and file surrendered certificates, whether any certificates have been signed in blank by any officer of the bank, and whether any canceled or unused certificates are unaccounted for, and due report should be made of any irregularity.

The examiner should also note and report whether or not the bank owns or holds any of its own stock, either as an investment or as security in any way for a loan or discount, and whether each director owns in his own right the number of shares required by law unpledged in any way; also, whether the bank holds any notes given by its shareholders in payment of stock.

Ascertain whether the shareholders have borrowed from other banks to pay capital of a newly organized bank or a bank which has just increased its capital, and afterwards transferred the notes to the bank examined; and if any cases of this sort are discovered, same should be reported.

33. Money borrowed.—Under this heading should be included all liabilities for borrowed money, whether bills payable, rediscounts, open accounts, certificates of deposit, bonds, or other securities sold under agreement to repurchase, notes made or endorsed by directors or officers for the sole benefit of the bank, or otherwise.

34. Notes and bills rediscoun ted.—The examiner should make a list of all loans and discounts rediscoun ted by the bank, showing the names of makers and endorsers, amounts and names of the rediscoun ting bank, or other lenders, in order that correctness of these items may be verified. Only the total amount of paper rediscoun ted with each bank or party, and the rate of interest paid on such rediscoun ts, need be shown in the report.

35. Bills payable.—Where bills payable or certificates of deposit issued for borrowed money are
outstanding, the examiner should make a list of the amount of each, and the date issued, and the date of maturity when not payable on demand, and the rate of interest paid by the bank, and should reconcile each account by correspondence with the lenders.

Wherever money is borrowed in any form the examiner should ascertain from the minutes of directors' meetings whether or not such action was duly authorized by the board of directors.

Paid and canceled certificates of deposit issued to directors or officers of the bank should be called for in order that the examiner may possibly ascertain from the endorsements appearing thereon whether they were used for the purpose of borrowing money for the bank.

36. Officers and employees—fidelity bonds.—All officers and employees of every bank should be adequately and sufficiently bonded in a responsible corporate surety.

37. Reconcilements.—The supervising examiner will furnish to the examiner forms for use in obtaining the information desired in order to reconcile the various accounts of the banks examined. With the exception herein stated all reconcilements will be made in the supervising examiner's office.

The examiner should make a note of any loans, discounts, and other items forwarded for collection; the name of the bank to which sent, the date sent, and the date of maturity; verify the reconcilements of the accounts last rendered the bank and continue the verification of remittances and collections, as far as the acknowledgments will permit, to the date of examination. A minute should be made of all items not acknowledged at the close of the examination.

The examiner should in each examination call for all of the last reconcilements, should compare each with the books, and be satisfied that each is properly made. If any irregularities appear, examination
should be made of reconcilement for the month preceding. This should enable the examiner to detect any discrepancy or blind item carried from month to month to cover irregularities.

38. Reports of condition and earnings and dividends.—Every bank should keep a duplicate of each report of condition and also each report of earnings and dividends made to the supervising authority, complete in every respect. The examiner should always call for all reports made since the previous examination, or as many as the examiner deems proper, and make comparison with the books of the bank to ascertain whether the reports reflect condition shown by the books on the dates of the reports.

The report of condition should be checked against the accounts in the general ledger (not the statement book) in order that any forced balances may be detected.

39. Reserves.—When the books of the bank reflect a reserve for contingencies, the examiner should ascertain whether this reserve has been set up to provide for certain specific items, or merely for losses that may accrue but are yet undetermined.

40. Accruals.—Where the bank under examination purports to operate on an "accrual basis" or a "partial accrual basis" an analysis should be made to ascertain if income on non-income-producing assets has been accrued in the same manner with earning assets.

41. Audit of insured liability of bank.—All banks that have not heretofore been audited for verification of remittance covering deposits eligible for insurance in the temporary Federal deposit insurance fund in accordance with the provisions of the Banking Act of 1933 will be audited by special representatives and/or examiners of this corporation in due course.
Reference is made to form 44A—F.D.I.C. "Instructions for the preparations of the certified statement (form 45) to be filed with the Federal Deposit Insurance Corporation", which has been made available to the examiners and assistants.

Banks having total accounts numbering 2,000 and under must be audited by the examiner during the next examination of the bank following its admittance to membership in the fund.

42. Joint examination with State banking departments.—For the purpose of avoiding a multiplicity of examinations all examinations should be conducted jointly with State supervisory authorities so far as that procedure is practicable. In the interest of effective and thorough examinations it is highly important that the most cordial relationship be maintained between the personnel of the examining division of this Corporation and that of the State banking authorities, as well as with national and Federal Reserve examiners. The examiner should especially refrain from expressing any criticism of State banking authorities or their methods. In the case of a joint examination with a State banking department, proper deference should be shown the State examiners and their suggestions followed insofar as it is possible without limiting the scope of examination for this Corporation. If information is requested by any other examining or supervising agency concerning the condition of any bank which is affiliated with a bank under their supervision, or the status of any of its borrowers, the examiner is authorized to give such information provided that he secures the consent of the Corporation in each instance and that he has an understanding that the same courtesies will be extended by such agency if a similar request is made by the examiner.
43. Examiners should not antagonize officers.—The authority vested in the examiner should be wisely, discreetly, courteously, and tactfully exercised. Care should be taken to avoid giving needless irritation to officers and employees of the banks, but the examiner should be firm in his requirements and insist on faithful compliance with instructions.

44. Examiner must not obligate himself to any bank.—An examiner must not put himself under any obligation to any bank examined or to be examined by him by borrowing money, accepting extra compensation or otherwise. An examiner should especially avoid placing himself under social or any other obligations to officers or employees of the banks which he may be called on to examine. It is best that an examiner should neither accept any hospitalities or invitations from or entertain the officers or employees of any bank, nor should he accept from them at any time presents of any sort.

An examiner should be quite as studious, to avoid placing himself under any obligations to the officers or employees of the banks he examines as is the judge of a court in regard to the litigants who may be called before him.

An examiner will not be permitted by the Corporation to engage in the work of examining or auditing the books, accounts, etc., of any corporation, company, firm, or individual. His work must be confined to the examination of banks under instructions from the Corporation or its representative.

Public Utterances

Public utterances before luncheon clubs or other public organizations, and contributions to magazines or newspapers are not regarded with favor by the officials of the Corporation.
Conclusion

All examiners and assistants should feel free to approach a supervising examiner as well as the examining division at the Corporation's office in Washington on any and all matters affecting their official duties or personal conveniences.