

Date October 15, 1935**Office Correspondence**Subject: Whether Board members may borrowFrom Walter Wyatt, General Counselfrom member banks.

16-852

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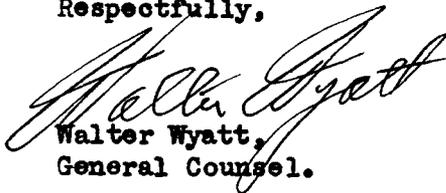
The law does not forbid a member of the Board to borrow from a member bank; but in view of section 4, which forbids a member of the Board to be an officer, director, or stockholder of any banking institution, and section 22(a), which makes it a crime for any bank examiner to accept a loan or gratuity from any bank examined by him, it may be argued that it is contrary to the spirit and purpose of the law for a Board member to place himself under obligation to a member bank by borrowing therefrom, and a Board member might be criticized for doing so.

Furthermore, the Board has addressed a letter (copy attached) to all Federal Reserve Agents (X-7425), wherein it expressed the following opinion:

"Because of the special relationship that exists with member banks and the high responsibility resting upon the Federal Reserve banks in connection therewith, the Board feels that it is especially important that the Federal Reserve Agents and their assistants, including the members of their staffs engaged in audits and examinations, should refrain from incurring any indebtedness, directly or indirectly, to member banks, their subsidiaries or affiliates, or otherwise placing themselves in any position which may result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their responsibilities with respect to such banks under the Federal Reserve Act."

In view of this letter, which is still outstanding and in effect, it would not seem that a member of the Board could consistently borrow from a member bank.

Respectfully,



Walter Wyatt,
General Counsel.

Attachment

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7425

April 29, 1933.

SUBJECT: Indebtedness of Officers and Employees.

Dear Sir:

Because of the special relationship that exists with member banks and the high responsibility resting upon the Federal reserve banks in connection therewith, the Board feels that it is especially important that the Federal Reserve Agents and their assistants, including the members of their staffs engaged in audits and examinations, should refrain from incurring any indebtedness, directly or indirectly, to member banks, their subsidiaries or affiliates, or otherwise placing themselves in any position which may result in questions being raised as to the independence of their judgment or their disinterestedness in the discharge of their responsibilities with respect to such banks under the Federal Reserve Act. Furthermore, in order to avoid the possibility of embarrassment in connection with the performance of their official duties, it is the view of the Board that they should refrain from incurring any indebtedness to others except for legitimate and necessary purposes, and that, whenever any indebtedness is incurred by them (excluding, of course,

current bills for ordinary personal and household expenses, but not excluding indebtedness incurred to others to obtain funds for payment of such bills), there should be prompt disclosure of all the facts to the Federal Reserve Board.

The Board desires that each Federal Reserve Agent prepare and transmit to it as promptly as possible after July 1, 1933, a report showing as of that date any indebtedness of the agent and members of his staff (excluding, of course, current bills for ordinary personal and household expenses, but not excluding indebtedness incurred to others to obtain funds for payment of such bills). The report should set forth the name of the person, firm, corporation, or institution to which the indebtedness is due, the date on which it was originally incurred (indicating whether before or after such officer or employee entered the service), the maturity of the indebtedness, the unpaid balance, a description of the security therefor, if any, a brief statement of the purpose for which the indebtedness was incurred and the progress being made in liquidating it, and any comment that the Agent may wish to make in connection therewith. In addition, there should be a prompt report to the Federal Reserve Board of any indebtedness of the kind referred to incurred by the Agent or any member of his staff after July 1, 1933, and such report should contain information similar to that called for above with respect to indebtedness outstanding on that date.

The Board believes that the directors of the Federal reserve banks will feel that the same general principles should be applied to the members of the staffs of the Federal reserve banks, particularly the officers, the heads of departments, and other employees occupying

responsible positions, except that the reports mentioned would be made to the Boards of Directors instead of to the Federal Reserve Board. It requests, therefore, that this letter be brought to the attention of the Board of Directors of each bank, with the suggestion that they consider the advisability of adopting these principles if they have not already been established, of taking appropriate steps to obtain from such officers and employees information similar to that called for with respect to the Federal Reserve Agents and the members of their staffs, and of requiring all such officers and employees promptly to report to the Board of Directors any indebtedness of the kind referred to that may thereafter be incurred.

In this connection, the Board desires to call attention to its circular letter of May 7, 1924 (X-4048) which contains the following statement:

" * * * the Federal Reserve Board believes it will be as obvious to the directors of the Federal reserve banks as it is to itself that the good conduct and repute of the Federal Reserve System require that the officers of the reserve banks shall give their entire time and attention to the affairs of the banks and not be identified with any outside business interests."

The Board feels confident that the directors of the Federal reserve banks will recognize the importance of strict conformity with the principles set forth in that letter. While it refers particularly to the officers of Federal reserve banks, it is equally applicable to heads of departments and employees occupying responsible positions in the banks, as well as to the Federal reserve agents and the members of their staffs. If any of them has any connection with a business concern of any kind, the Board requests that it be promptly advised with respect thereto.

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The Board will be pleased to have an acknowledgment of the receipt of this letter, together with a statement of the action that has been or will be taken in regard to these matters.

Very truly yours,

Chester Morrill,
Secretary.

TO AGENTS OF ALL F. R. BANKS.