
SUMMARY OF "BANKING ACT OF 1935"

(H. R. 7617)

AS PASSED BY THE HOUSE OF REPRESENTATIVES

On May 9, 1935.

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There are summarized below the provisions of the "Banking Act of 1935" (H. R. 7617) as passed by the House of Representatives on May 9, 1935 and referred to the Banking and Currency Committee of the Senate the following day. This is intended merely as a brief statement of the apparent effect of the principal provisions of the bill but is not intended as a legal interpretation of the language of the bill or as a comment thereon.

Title I of the bill is summarized by subject matter because its provisions are closely interrelated. Titles II and III are summarized section by section.

The references in Title I to "Act" refer to the Federal Reserve Act and the numbers following the word "Act" refer to sections thereof. The references in Title I to "Bill" refer to the proposed "Banking Act of 1935", and the page references immediately after the word "Bill" refer to the pages of the printed copy of the bill as passed by the House of Representatives on May 9, 1935 and referred to the Banking and Currency Committee of the Senate the following day.

TITLE I. FEDERAL DEPOSIT INSURANCE AMENDMENTS.

MODIFICATIONS IN PLAN OF DEPOSIT INSURANCE.

Upon the enactment of the bill the temporary insurance plan now in existence would be converted into a permanent plan, changed in some respects from the permanent plan now provided for by law.

Cost of Insurance to Banks. -- In lieu of the assessments aggregating not more than 1 per cent of insured deposits to which banks insured under the existing temporary insurance plan are subject (Act 12B(y)) and of the requirement that banks insured under the permanent plan purchase stock in the Federal Deposit Insurance Corporation (Act 12B(e)) and then be liable for unlimited assessments (Act 12B(1)), insured banks under the plan set up in the bill would be subject to an annual assessment of one-eighth of 1 per cent of their total deposits (Bill p. 11), the assessment to be payable in semi-annual installments. (Bill p. 12). However, the Corporation would be authorized to establish a separate insurance fund for Mutual Savings Banks (Bill p. 24) similar to the existing Temporary Fund for Mutuals (Act 12B(y)); and if such Fund should be established, the Federal Deposit Insurance Corporation Directors, from time to time and for such periods as they determine, could fix a lower rate for insured mutual savings banks. (Bill p. 12). The refund which, under the old law, would be due to a member of the Temporary Insurance Fund upon the dissolution of such Fund would be credited to the bank by the Corporation if the bank remains in the permanent insurance, and applied to the bank's annual assessments until exhausted. (Act 12B(y)); (Bill pp. 13,14).

The payment of dividends on its stock by a bank which is in default in an assessment due the Corporation would be prohibited, as in existing law, but the penalty of fine or imprisonment would be eliminated, and the prohibition would not apply in the case of a dispute as to the assessment, if the bank should deposit satisfactory security for payment upon final determination of the issue. (Act 12B (1); Bill p. 40). Provision also would be made for the Corporation, by proceedings in law or equity, to collect unpaid assessments, or to obtain the statement of a bank's deposits on which such assessments would be based, (Bill p. 14); and a bank which failed to file such statement or pay such assessment could be deprived of all the rights, privileges or franchises granted it under the National Bank Act or the Federal Reserve Act. (Bill pp. 14, 15).

Amount of Deposits Insured. -- In lieu of the existing provision of the permanent insurance plan insuring 100 per cent of deposits up to $10,000, 75 per cent between $10,000 and $50,000, and 50 per cent above $50,000 (Act 12B(1)), the bill provides that $5,000 shall be the maximum amount insured for one depositor (Bill pp. 6, 24), conforming in this respect to the existing plan for Temporary insurance (Act 12B(y)). However, the amount of the insured deposit would be computed after deducting offsets (Bill p. 6)). Deposits of trust funds would be insured to the extent of $5,000 for each estate in addition to the insurance of other deposits owed the trust beneficiary. (Bill pp. 6, 15). Trust funds deposited by insured fiduciary banks in other insured banks would likewise be insured to the

extent of $5,000 for each trust estate represented. (Bill p. 15).

WHAT BANKS ARE INSURED; TERMINATION OF INSURED STATUS.

Transfer of Members of Temporary Fund to Permanent Insurance Plan. -- All operating members of the present Temporary Insurance Fund would continue to be insured, and would automatically be transferred to the permanent insurance plan (Bill pp. 8, 9), subject to the right of withdrawal or expulsion in certain cases, as indicated below. There would no longer be any necessity for examination or certification of such banks which are already insured, in order to entitle them to permanent insurance. (Act 12B(e); Bill pp. 8, 9).

Insurance of Banks Entering Federal Reserve System. -- State banks becoming members of the Federal Reserve System, national member banks commencing or resuming business, and State banks converting into national member banks, would become insured upon the issuance of a specified certificate to the Federal Deposit Insurance Corporation by the Comptroller of the Currency in the case of a national bank, or by the Federal Reserve Board in the case of a State member bank; and if the bank entering the System or converting into a national bank is already insured, no such certificate would be required. The certificate must state that "consideration has been given" to the following factors: the financial condition of the bank and the adequacy of its capital structure. (Bill pp. 8, 11).

Insurance of Additional Nonmember Banks. -- Any national nonmember bank would be permitted to become insured upon a similar certification by the Comptroller of the Currency. Any State nonmember bank

would also be permitted to become insured upon application to and examination by the Federal Deposit Insurance Corporation, but before approving such an application the Federal Deposit Insurance Corporation Directors would be required to "give consideration" to the factors listed above, and to determine, upon the basis of a thorough examination, that the bank's assets in excess of its capital requirements are adequate to enable it to meet all of its liabilities as shown by the books of the bank to depositors and other creditors. (Bill p. 10). The requirement of existing law in such cases is that the bank be in "solvent condition". (Act 12B (y), (e)). The old provision in section 12B(f) for insurance of a nonmember bank after July 1, 1936 pending its application for conversion into a national bank or for admission to the System would be eliminated. (Bill p. 9).

Insurance Terminated for Certain Banks June 30, 1935. -- A nonmember bank would be permitted to withdraw from the plan as of June 30, 1935 by giving to the Federal Deposit Insurance Corporation and to the Reconstruction Finance Corporation, if it owns or holds as pledgee any preferred stock, capital notes or debentures of such bank, notice within thirty days after the enactment of the bill, and notice to its depositors not less than 20 days before June 30, 1935. Insurance of a State nonmember bank would also be terminated on June 30, 1935 unless before enactment of the bill, the bank filed the statement showing its deposits as of October 1, 1934 and paid the assessment as of that date, as required by existing law. A bank's

insurance also would be terminated as of June 30, 1935, if prior to the enactment of the bill it had permanently discontinued banking operations. (Bill pp. 9, 10).

Termination of Insurance by Expulsion. -- The Federal Deposit Insurance Corporation Directors would be authorized to terminate the insured status of a bank for continued unsound practices or for violation of the law or material regulations to which the bank is subject. A statement of such violation first would have to be given the Comptroller of the Currency in the case of a national or district bank, the State Supervisory authorities in the case of a State bank, and also the Federal Reserve Board in the case of a State member bank, for the purpose of securing a correction of such practices or conditions. If correction was not made within 120 days, or such shorter period of time as the Comptroller, State authority, or Board, as the case may be, might require, the Federal Deposit Insurance Corporation Directors, if they determined to proceed further, would have to give the bank not less than thirty days written notice of intention to terminate its insured status, and fix a time and place for hearing. If the bank did not appear, or if the Federal Deposit Insurance Corporation Directors made a written finding (such written findings to be conclusive) that any ground specified in such notice had been established, the Directors could "order that the insured status of the bank be terminated". The corporation could publish notice of the termination, and the bank would have to give notice to its depositors in the manner prescribed by the Directors. (Bill pp.16-19).

After such termination, the insured deposits of each depositor in the bank on the date of termination, less subsequent withdrawals, would remain insured for two years; and during that period the bank would continue to pay assessments like any other insured bank and remain subject to all other duties of an insured bank. However, no additional deposits would be insured, and the bank could not advertise or hold itself out as having insured deposits unless it stated with equal prominence that deposits received after the date of termination are not insured. (Bill p. 18). When the insured status of a bank was thus terminated, if it was a State member bank the Federal Reserve Board would terminate its membership in the Federal Reserve System in accordance with the provisions of Section 9 of the Federal Reserve Act; and if it was a national bank the Comptroller would appoint a receiver for the bank (which would be the Federal Deposit Insurance Corporation if the bank should be unable to meet the demands of its depositors). (Bill p. 19).

Voluntary Termination of Insurance. -- Any insured nonmember bank, upon not less than ninety days written notice to the Federal Deposit Insurance Corporation, and to the Reconstruction Finance Corporation if it owns or holds as pledgee any preferred stock, capital notes or debentures of such bank, would be permitted to terminate its status as an insured bank, with continued insurance of existing deposits for two years as noted above in the case of expulsion. (Bill pp. 16-19).

Termination of Insurance by Assumption of Deposits. -- Assumption of the liabilities of an insured bank by another insured bank would terminate the insured status of the bank whose liabilities are assumed, with like effect as if terminated as above, except that if the bank whose liabilities are so assumed should give its depositors notice of such assumption within thirty days thereafter, in the manner prescribed by regulations of the Federal Deposit Insurance Corporation Directors, the insurance of its deposits would completely terminate at the end of six months, and such bank would be relieved of all future obligations to the corporation. (Bill pp. 19, 20).

Federal Reserve Membership Not Required For Insurance of Deposits. -- The provisions of existing law which terminate the insurance of a member bank of the Federal Reserve System upon its ceasing to be a member bank (Act 12B(i)); and which terminate the insurance of all nonmember banks on July 1, 1937 (Act 12B(1), (y)); would be eliminated. (Bill pp. 16, 23, 43).

GENERAL CONTROL OF INSURED BANKS.

Examination of Insured Banks. -- In lieu of the limited power of examination given the Federal Deposit Insurance Corporation in the existing section 12B(y), the bill would permit the Federal Deposit Insurance Corporation examiners, whenever considered necessary, to examine any State nonmember bank which is insured or seeking insurance, and also any closed insured bank. With the written consent of the Comptroller of the Currency, they could also examine any

national or district bank and with such consent from the Federal Reserve Board, any State member bank. In addition to the usual powers of examination, these examiners would have power to administer oaths, take and preserve testimony under oath and apply to court officials for subpoenas to compel the production or taking of testimony. (Bill pp. 21, 22).

Publication of Examination Reports. -- The Federal Deposit Insurance Corporation would be authorized to publish in such manner as it might determine, any part of the report of such an examination of an insured bank (except a national or district bank) if such bank failed to comply with the recommendations of the Federal Deposit Insurance Corporation based on such report of examination, for a period of 120 days after written notice of such recommendations. Not less than 90 days' notice of intention to make such publication would have to be given. (Bill p. 41).

Condition Reports of Insured Nonmember Banks. -- Insured State nonmember banks (except district banks) would be required to make condition reports to the Federal Deposit Insurance Corporation in such form and at such times as the Federal Deposit Insurance Corporation Directors might require, and the Directors could require publication of these reports. Failure to make or publish such a report within such time, not less than 5 days, as the Federal Deposit Insurance Corporation Directors might require, would subject a State nonmember bank to a penalty of $100, recoverable by the Federal Deposit Insurance Corporation for each day of such failure. (Bill p. 22).

Merger of Insured Bank with Non-insured Bank. -- Prior written consent of the Federal Deposit Insurance Corporation would be required for an insured bank to consolidate or merge with a non-insured bank, assume liability to pay deposits made in any non-insured bank, or transfer assets to a non-insured bank in consideration of the assumption of liability for any portion of the deposits made in the insured bank. Such consent also would be required for an insured State nonmember bank (except a district bank) to reduce the amount or retire any part of its common or preferred stock or capital notes or debentures. (Bill pp. 40, 41).

Payment of Deposits and Interest Thereon by Insured Nonmember Banks. -- The Federal Deposit Insurance Corporation Directors would be directed to prohibit the payment of interest on demand deposits in insured nonmember banks, and from time to time to limit by regulation the rates of interest payable by such banks on other deposits. Such regulations would prohibit insured nonmember banks from paying deposits prior to maturity and from waiving any notice requirement with respect to withdrawal of deposits, but the prohibitions respecting withdrawal would not apply to savings deposits. To the prohibition against payment by insured nonmember banks of interest on demand deposits, there would be made such exceptions "as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks" by section 19 of the Federal Reserve Act or by regulation of the Federal Reserve Board. Exceptions also could be made to the prohibition against the payment of deposits before maturity and the waiving of notice requirements with respect to withdrawal of de-

posits; but, unlike section 324(c) of the bill which would authorize the Federal Reserve Board to make such exceptions with respect to member banks (see p.44 of this summary), this provision would authorize the Federal Deposit Insurance Corporation Directors to make such exceptions with respect to insured nonmember banks only "where by reason of special circumstances the prohibitions respecting withdrawals would cause unnecessary hardship to depositors". The provisions regarding the payment of deposits and interest thereon by insured nonmember banks also provide a penalty of $100 recoverable by the Corporation for violation, differing in this respect from such provisions relating to member banks. (Bill pp. 41-43).

Burglary and Fidelity Insurance. -- The Federal Deposit Insurance Corporation would be authorized to require any insured bank to provide protection and indemnity against burglary, defalcation and other similar insurable losses; and if an insured bank failed to comply with such requirement, the Federal Deposit Insurance Corporation could contract for such protection, adding the cost to the assessment otherwise payable by the bank. (Bill p. 41).

Insurance of Deposits to be Stated in Advertisements. -- The requirement of existing law that insured banks display a sign indicating the insurance of their deposits, would be extended to require that they also include such information in advertisements relating to deposits. A definite penalty of $100, recoverable by the Federal Deposit Insurance Corporation, for each day of violation of this provision, would be substituted for a mere authorization to the

Federal Deposit Insurance Corporation to impose a penalty not exceeding that amount in its regulations on the subject. (Act 12B (v); Bill pp. 39, 40).

CHANGES IN PROCEDURE FOR PAYING INSURED DEPOSITS

The procedure for paying insured deposits would remain largely the same as in the old Act, except that certain provisions would be made more flexible and certain increased powers would be given the Federal Deposit Insurance Corporation and its Directors. (Act 12B(1); Bill pp. 23-32).

Organization of "New Bank". -- Upon the closing of an insured bank, the Federal Deposit Insurance Corporation would no longer have to organize a "new bank" in all cases, as a means of paying off the insured deposits. It could follow that method, or it could pay off such deposits by transferring them to another insured bank or by any other procedure adopted by the Federal Deposit Insurance Corporation Directors. (Act 12B (1); Bill p. 26). The provision would be added that if a new bank is organized, it must be organized in the same community. However, in certain circumstances, the Federal Deposit Insurance Corporation Directors could change the location of the new bank to the Federal Deposit Insurance Corporation office or some other place. (Bill pp. 27, 31). Obligations guaranteed as to principal and interest by the United States would be made eligible investments for such a "new bank"; and unless such "new bank" was the only bank in the community, it would not be permitted to accept more than $5,000 on deposit from any depositor. (Bill p. 28).

Investigation of Claims for Insured Deposits. -- Through claim agents, the Federal Deposit Insurance Corporation could investigate claims for insured deposits, such claim agents having power to administer oaths, take and preserve testimony under oath and apply to court officials for subpoenas to compel the production or taking of testimony. (Bill p. 22). Except as the Federal Deposit Insurance Corporation Directors might prescribe, neither the Federal Deposit Insurance Corporation, a "new bank", or a bank to which insured deposits had been transferred by the Federal Deposit Insurance Corporation, would be required to recognize a claim to a part of a deposit not appearing on the closed bank's records or its outstanding certificates or passbooks as partly owned by the claimant, if it would increase the aggregate insured deposits of the closed bank. (Bill p. 33). The Federal Deposit Insurance Corporation could withhold payment of an insured deposit to the extent necessary to assure payment of a stockholders liability or any other sums due from a depositor to a closed bank, which were not offset by a claim due from the bank. (Bill p. 34).

Discharge of Federal Deposit Insurance Corporation Liability for Insured Deposit. -- Payment of an insured deposit would discharge the Federal Deposit Insurance Corporation, a "new bank", or a bank to which the Federal Deposit Insurance Corporation transferred an insured deposit, to the same extent that payment by the closed bank would have relieved the closed bank from liability for the insured deposits (Bill p. 33); and failure of a depositor, after

the corporation has given at least three months' notice to the depositor by mailing a copy thereof to his last known address appearing on the records of the closed bank, to claim a deposit within eighteen months after the appointment of a receiver for the closed bank would bar the depositor's claim for insurance, leaving him merely the claim he would have had against the closed bank's estate and shareholders if his deposit had not been insured. (Bill p. 34).

Participation of Federal Deposit Insurance Corporation in Assets of Closed Bank. -- The depositor and the Federal Deposit Insurance Corporation, under the bill, apparently would participate proportionately in the dividends from the liquidation of the closed bank and recoveries on account of stockholder's liabilities (Bill p. 27), whereas, under existing law, the Federal Deposit Insurance Corporation receives complete repayment before the depositor begins to receive dividends on the uninsured portion of his deposit. (Act 12B(1)).

Criminal Provisions. -- The criminal provisions would be amended to make them more clearly applicable to persons attempting by false statements to obtain payment of an insured deposit or other such claim. (Act 12B(s); Bill p. 39).

Federal Deposit Insurance Corporation as National Bank Receiver. -- The Federal Deposit Insurance Corporation would not be required to give bond as receiver of a national or district bank, could appoint agents to assist in such duties, and subject to the

approval of the Comptroller of the Currency, could fix the fees and expenses for such liquidation and administration. In order to simplify administration, the Comptroller could relieve the Federal Deposit Insurance Corporation from compliance with his receivership regulations. (Bill pp. 32, 33).

GENERAL CHANGES; POWERS AND ORGANIZATION OF THE FEDERAL DEPOSIT INSURANCE CORPORATION; ETC.

Powers of Federal Deposit Insurance Corporation Directors. -- In several instances, powers previously given generally to the Federal Deposit Insurance Corporation would be definitely lodged in its Board of Directors, and additional powers would also be given both the Corporation and the Directors.

Vacancies on Federal Deposit Insurance Corporation Board of Directors. -- In the event of a vacancy in the office of the Comptroller of the Currency, the Acting Comptroller would be authorized to act on the Federal Deposit Insurance Corporation Board of Directors in the place of the Comptroller; and in the absence of the Comptroller of the Currency, any Deputy Comptroller, as designated from time to time by the Comptroller and within the limits prescribed by the Comptroller, could act as a member of the Corporation's Board of Directors in his stead. During a vacancy in the office of chairman of the Board of Directors, and pending the appointment of a successor, the Comptroller of the Currency would act as chairman. (Bill p. 2)

Restrictions on Federal Deposit Insurance Corporation Directors. -- Federal Deposit Insurance Corporation Directors would be forbidden to hold any stock in any bank, banking institution, or trust company, or to be an officer or director of any such institution or of a Federal Reserve bank; and they would be ineligible during their time in office and for two years thereafter to hold any office, position, or employment in any insured bank. However, an appointive member of the Board of Directors who has served the full term for which he was appointed would not be subject to this last restriction; and no member of the Board of Directors serving on the date of enactment of the bill would be subject to any of these restrictions until the expiration of his present term of office. (Bill pp. 2, 3).

Capital Structure of the Federal Deposit Insurance Corporation. -- The capital structure of the Federal Deposit Insurance Corporation would be altered by the bill. Instead of consisting of three kinds of $100 par value shares, two of which types were to be held by the Treasury and the insured banks, respectively, and were to receive 6 per cent dividends annually (Act 12B(c), (d)), the stock would be that subscribed for before enactment of the bill (i.e., by the Treasury and the Federal Reserve banks) and would be no par value. None of the stock would pay dividends, just as now provided with respect to stock issued to the Federal Reserve banks; and all stock in the Corporation would be non-voting. One share would be issued (or exchanged and reissued) for each $100 of consideration, and the Federal Deposit Insurance Corporation Directors

would allocate this consideration to the Corporation's capital or surplus as they deem desirable. (Bill p. 7). Since the insured banks would no longer own stock in the Federal Deposit Insurance Corporation, provisions for varying the Corporation's capital stock with variations in the insured banks' deposits (Act 12B(h)), or upon the insolvency of insured banks (Act 12B(i)), would be eliminated. (Bill pp. 11, 16).

Bonds and Other Obligations of Federal Deposit Insurance Corporation. -- The amount of notes, bonds, debentures or other such obligations which the Federal Deposit Insurance Corporation may have outstanding would be changed from three times its capital, to three times the amount received in payment of its capital stock and of the first annual assessments of the insured banks (Act 12B(o); Bill p. 36). Such of the Corporation's obligations as the Corporation, with the approval of the Secretary of the Treasury, might determine, would be fully guaranteed as to principal and interest by the United States (Bill p. 37). The Secretary of the Treasury would be authorized to deal in such guaranteed obligations as a public-debt transaction, and proceeds of securities sold under the Second Liberty Bond Act, as amended, could be used for such purpose or securities could be issued thereunder for that purpose. (Bill p. 38). The Secretary of the Treasury, at the request of the Corporation, would also be authorized to market such guaranteed obligations for the Corporation. (Bill p. 38). Obligations guaranteed as to principal and interest by the United States would be made eligible for investment of the Corporation's funds. (Bill p. 32).

Purchase of Closed Bank Assets by Federal Deposit Insurance Corporation. -- The Federal Deposit Insurance Corporation's "duty" to purchase the assets of banks which closed before its creation would be ended (Act 12B(a); Bill p. 1); and, similarly, the power of bank receivers to apply to the Federal Deposit Insurance Corporation for sales of or loans on the assets of closed banks, would be changed to apply only to receivers of closed insured banks, rather than to receivers of all closed member banks. If the Federal Deposit Insurance Corporation is also receiver of the closed bank, the loan or purchase could not be made without the approval of a court of competent jurisdiction. (Act 12B(n); Bill p. 35).

Loans on Assets of Open or Closed Insured Banks. -- To avoid threatened loss to the Federal Deposit Insurance Corporation, or to encourage mergers or consolidations, etc., the Federal Deposit Insurance Corporation, until July 1, 1936, could lend upon or purchase the assets of any open or closed insured bank or guarantee another insured bank against loss by reason of assuming the assets and liabilities of such an insured bank. National and district banks or, with the approval of the Comptroller of the Currency, receivers thereof, would be authorized to contract for such loans from or sales to the Federal Deposit Insurance Corporation. (Bill p. 36).

Use of Other Examination and Condition Reports. -- The Federal Deposit Insurance Corporation would be given access to examination and condition reports made to the Comptroller of the Currency and the Federal Reserve banks. It could accept reports made by or

to State bank supervisory authorities, and it could furnish to the Comptroller, the Federal Reserve banks or such State authorities, examination or condition reports made by or to it. (Bill p. 23).

Litigation to which Federal Deposit Insurance Corporation Is a Party. -- All civil suits at law or equity to which the Federal Deposit Insurance Corporation is a party would be deemed to arise under the laws of the United States (giving Federal Courts jurisdiction), except that suits to which the corporation is a party as receiver of a State bank and which involve only the rights or obligations of depositors, creditors, stockholders and such State bank under State law would not be deemed to arise under the laws of the United States. No attachment or execution could be issued against the Corporation or its property before final judgment in any court. The Federal Deposit Insurance Corporation directors would designate an agent upon whom service of process could be made in any State, territory, or jurisdiction in which an insured bank is located. (Bill p. 20).

Definitions. -- The bill contains definitions for various terms used in section 12B (Bill pp. 3-7); and it also contains a provision that unincorporated banks which continue to be insured under the provisions of the Act, are to be included in the terms "State bank" and "State nonmember bank" for the purposes of section 12B. (Bill p. 43).

TITLE II. - AMENDMENTS ESPECIALLY AFFECTING FEDERAL RESERVE SYSTEM

SECTION 201.

Governor of Federal Reserve Bank. - Appointment - Qualifications - Duties.

Section 4 of the Federal Reserve Act would be amended so as to recognize in the Act for the first time, the office of Governor of a Federal Reserve bank, and combine with it, as indicated below, the office of chairman of the board of directors of the bank. The Governor would be appointed annually by the Reserve bank directors, subject to approval every three years by the Federal Reserve Board; and he would be ex officio chairman of the board of directors and chairman of the executive committee, as well as chief executive officer of the bank to whom all other officers and employees would be directly responsible.

The Governor of the bank, upon his approval by the Federal Reserve Board, would automatically be a Class C Director but, unlike the other Class C Directors, he need not have been a resident of the district for two years, and he would continue as Class C Director only during his service as Governor rather than for the usual three year term to which the two other Class C directors are appointed by the Federal Reserve Board.

Abolition of Office of Federal Reserve Agent.

Ninety days after enactment of the bill, the offices of Governor and chairman of the board of directors would be combined, and on that date, any Federal Reserve Agent not appointed Governor of the bank would cease to be a Class C Director and chairman of the board.

The offices of Federal Reserve Agent and Assistant Federal Reserve Agents would be abolished, and duties prescribed by law for the Federal Reserve Agent would be performed by the Governor of the bank or by such other person or persons as he might designate.

The present requirement that the chairman of the board of directors "be a person of tested banking experience" would be eliminated, together with the requirements that he maintain a local office of the Federal Reserve Board on the premises of the Federal Reserve bank and make regular reports to the Board.

Vice-Governor of Federal Reserve Banks.

Provision would be made for a Vice-Governor who, in the absence or disability of the Governor, or during a vacancy in that office, would serve as chief executive officer of the bank and as chairman of the bank's executive committee. He would be chosen in the same manner as the Governor and could be appointed a Class C Director. If he was appointed Class C Director, he could also be appointed deputy chairman of the Board of Directors; and like the Governor, he would continue as Class C Director only during his service as Vice-Governor, and would not be subject to the requirement of two years residence in the district. Vacancies in the office of Governor or Vice Governor would be filled as provided in the case of original appointments, and for the remainder of the term of the predecessor.

Limitation on Federal Reserve Bank Directors' Continuous Service.

Federal Reserve bank directors, other than the Governor and Vice Governor, would not be permitted to serve more than two

consecutive terms of three years each, but present incumbents could serve out their terms.

SECTION 202

Requirements for Admission to Federal Reserve System.

Section 9 of the Federal Reserve Act would be amended to permit the Federal Reserve Board, upon the application of an insured nonmember bank, to waive in whole or in part the requirements of the section relating to admission to the System. If such a bank was admitted with capital less than that required for the organization of a national bank in the same place and its capital and surplus were not, in the Board's judgment, adequate in relation to the bank's liabilities to depositors and other creditors, the Board, in its discretion, could require such bank to increase its capital and surplus to such amount as the Board might deem necessary within such period as the Board might deem reasonable; but no such bank could be required to increase its capital beyond that required for the organization of a national bank in the same place.

SECTION 203.

Qualifications of Governor and Members of Federal Reserve Board.

(1). Section 10 of the Federal Reserve Act would be amended to exempt the Governor of the Federal Reserve Board from the requirement that no two appointive members of the Board may be from the same Federal Reserve District. In selecting the six appointive members of the Board, the President would be directed to "choose persons well qualified

by education and experience or both to participate in the formulation of national economic and monetary policies"; and the present requirement that the President "have due regard to a fair representation of the financial, agricultural, industrial and commercial interests and geographical divisions of the country" would be eliminated.

Designation of Governor of Board; Termination of Designation.

(2) It would be made clear that the Governor and Vice Governor of the Board, following their designation by the President, continue as such only "until the further order" of the President. If the Governor's designation as such should be terminated, he could continue to serve as a member of the Board for the remainder of his term; but if he resigned within ninety days from the date of the termination of his designation as Governor, he would not be subject to the provisions of existing law which prohibit appointive Board members who do not serve out their full terms from holding any office, position, or employment with a member bank within two years after their service on the Board.

Members of Federal Reserve Board to Serve Until Successors Qualify.

(3) Upon the expiration of their terms of office, members of the Federal Reserve Board would continue to serve until their successors are appointed and have qualified.

SECTION 204(a)

Assignment of Duties by Federal Reserve Board.

Section 11 of the Federal Reserve Act would be amended to make it clear that the Board may assign to designated members, officers, or representatives of the Board, any of its duties, functions or services

other than the determination of national or system policy, the making of rules or regulations, or powers which the Federal Reserve Act requires to be exercised by a specified number of Board members.

SECTION 204(b)

Policy Prescribed for Federal Reserve Board.

A new subsection would be added at the end of section 11 of the Federal Reserve Act so as to make it "the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

SECTION 205.

Open Market Operations.

Section 12A of the Federal Reserve Act would be rewritten, effective ninety days after enactment of the bill, so as to alter the procedure for determining the policies to be followed in the open market operations of the System. The title of the Federal Open Market Committee would be changed to the Open Market Advisory Committee; and instead of consisting of one member from each Federal Reserve district selected annually by the directors of the Federal Reserve bank, it would consist of five representatives of the Federal Reserve banks (with alternates to serve in their absences) elected annually by the governors of the twelve Federal Reserve banks. The Committee would

elect its own chairman, and it would meet upon the call of the chairman of the Committee or the call of the Governor of the Board, but meetings would be called whenever requested by a majority of the Committee members or a majority of the Board members. A minimum of four committee meetings a year would no longer be required, the meetings would no longer have to be held in Washington, and the provision stating that Board members may attend committee meetings would be eliminated.

The Committee would be required to consult and advise with, and make recommendations to, the Federal Reserve Board from time to time regarding the open market policy of the Federal Reserve System. The Federal Reserve Board would from time to time prescribe the open market policy of the System. The Board could make changes in the open market policy on its own initiative, but in such cases it would first have to consult the Committee.

Federal Reserve banks would be required to purchase or sell commercial paper, government bonds and other such obligations made eligible for purchase under section 14 of the Federal Reserve Act in the manner and to the extent required to effectuate the open market policies adopted by the Board. They would be required to cooperate in making such policies effective, and would no longer be permitted not to participate in such operations. The Committee would aid in the execution of the open market policies and perform related duties prescribed by the Board.

All transactions of Federal Reserve banks under section 14

of the Act would be subject to regulation, limitation, or restriction by the Board. The statement in section 12A that open market operations should be "governed with a view to accommodating commerce and business" would be eliminated.

The provisions of section 12A relating to the Board's power to regulate relations of the Federal Reserve System with foreign central or other foreign banks would be eliminated, but apparently with little effect, since the power to control such relations of Federal Reserve banks would remain in the Board under section 14(g) of the Federal Reserve Act.

Consultation With Committee Regarding Discount Rates and Reserve Requirements.

Just as the Federal Reserve Board would be required to consult the Committee before making any changes on its own initiative in the open market policy, it would also be required to consult the Committee before making such changes in the discount rates of Federal Reserve banks or the reserve requirements of member banks.

SECTION 206.

Requirements as to Eligibility of Paper for Rediscount.

Section 13 of the Federal Reserve Act would be amended by the addition of a paragraph permitting Federal Reserve banks, subject to regulation by the Board as to maturities and other matters, to rediscount any commercial, agricultural, or industrial paper upon the indorsement of a member bank, and to make advances to any member bank

on its promissory note secured by any sound assets of such member bank. In effect, this would abolish all technical requirements as to maturity and other matters relating to advances and discounts, and instead give the Board power to regulate such questions.

SECTION 207.

Obligations Guaranteed by United States Eligible for Purchase by Federal Reserve Banks.

Section 14(b) of the Federal Reserve Act would be amended to make obligations fully guaranteed as to principal and interest by the United States eligible for purchase and sale by Federal Reserve banks without regard to maturities.

SECTION 208.

Federal Reserve Note Issue Requirements.

Section 16 of the Federal Reserve Act would be amended to remove all provision for specific collateral securing Federal Reserve notes and abolish the present procedure by which they are issued to the banks by the Board through the Federal Reserve Agents.

Instead, Federal Reserve notes would be issued and retired directly by the Federal Reserve banks under rules and regulations prescribed by the Board; and all provision for their redemption would be eliminated, together with all provision for the redemption fund now kept with the Treasurer of the United States for that purpose. Federal Reserve banks would no longer be forbidden to pay out the Federal Reserve notes of another Federal Reserve bank. The existing provisions

authorizing the Board to impose a tax on Federal Reserve notes outstanding in excess of the gold certificates held as collateral, and to refuse a particular application of a Federal Reserve bank for Federal Reserve notes, would be eliminated.

Federal Reserve notes received by the Treasurer of the United States from sources other than Federal Reserve banks would be canceled and retired if unfit for further use, and the issuing bank would reimburse the Treasurer of the United States therefor. Federal Reserve notes unfit for further use which are received by Federal Reserve banks would be forwarded to Washington, canceled and retired; and if such notes were issued by another Federal Reserve bank, the issuing bank would make reimbursement.

Federal Reserve Notes a First Lien.

Federal Reserve notes would remain a first lien on all the assets of the issuing bank, but it is not clear whether such a lien would remain for Federal Reserve Bank notes.

Reserves to be Maintained by Federal Reserve Banks.

Forty per cent reserves in gold certificates would still be maintained against Federal Reserve notes in actual circulation.

The thirty-five per cent lawful money reserves required to be maintained by Federal Reserve banks against deposits could not include Federal Reserve notes or Federal Reserve bank notes.

SECTION 209.

Reserve Requirements of Member Banks.

Section 19 of the Federal Reserve Act would be amended to

clarify and make more flexible the Board's power to change the reserve requirements of member banks. These requirements could be changed "in order to prevent injurious credit expansion or contraction"; and it would no longer be necessary first to have a declaration, upon the affirmative vote of five Board members and the approval of the President that "an emergency exists by reason of credit expansion." The changes could be made for member banks located in reserve and central reserve cities, for member banks not in reserve or central reserve cities, or for all member banks. As indicated above in the discussion of section 205 of the bill, that section would require the Federal Reserve Board to consult the Open Market Advisory Committee before making any change in member bank reserve requirements.

SECTION 210

Real Estate Loans by National Banks.

Section 24 of the Federal Reserve Act dealing with loans by national banks on the security of first liens on improved real estate would be rewritten to substitute regulation by the Federal Reserve Board in lieu of certain restrictions now contained in the section. The requirement that the improved real estate upon which such loans are made must be located in the bank's Federal Reserve district, or within 100 miles of the place in which the bank is located would be eliminated. The maximum amount which could be lent on such property when the mortgage is not insured under Title II of the National Housing Act would be increased from 50% of the value, to 60%; and the restriction to maximum maturities of five years would be eliminated. A national bank would no

longer be required to take the entire amount of each such obligation on which it lends.

The amount of real estate loans which a national bank may make would be increased from an aggregate equal to 25% of its paid in and unimpaired capital and surplus, or 50% of its savings deposits, whichever is the greater, to 100% of its paid in and unimpaired capital and surplus, or 60% of its time and savings deposits, whichever is the greater. The provision of section 24 which prohibits national banks from paying a rate of interest on deposits greater than that permitted by law for State banks or trust companies in the State in which the national bank is located would be eliminated.

Regulations of Federal Reserve Board Regarding Real Estate Loans.

The Federal Reserve Board would be authorized to prescribe from time to time regulations defining the term "real estate loans" and other terms used in the section and regulating and limiting the making of real estate loans by member banks, with a view of preventing each bank from investing an unreasonably large proportion of its assets in real estate or real estate loans, or lending an unreasonably large percentage of the appraised value of the real estate, and otherwise requiring the banks to conform to sound practices in making such loans.

TITLE III. - TECHNICAL AMENDMENTS

SECTION 301

"Accidental Holding Company Affiliates" Eliminated.

Section 2(c) of the Banking Act of 1933 would be amended to eliminate from the definition of "holding company affiliates," (except for the purposes of section 23A of the Federal Reserve Act which deals with loans by member bank to such affiliates) and hence from all other provisions regarding such affiliates, any corporation all the stock of which is owned by the United States or any "organization which in the judgment of the Federal Reserve Board, is not engaged, directly or indirectly, as a business in holding the stock of, or managing or controlling banks, banking associations, savings banks, or trust companies".

SECTION 302.

Divorcement of Securities Companies in Liquidation Not Required.

Section 20 of the Banking Act of 1933 would be amended to make it clear, in conformity with a previous ruling of the Board, that member banks need not divorce securities affiliates which have been placed in formal liquidation.

SECTION 303(a).

Section 21 of Banking Act Clarified; Inapplicable To Banks Selling Mortgages.

Section 21(a)(1) of the Banking Act of 1933 would be

amended to make it clear that it does not prohibit any financial institution or private banker from engaging in the securities business to the limited extent permitted to national banks under section 5136 of the Revised Statutes. (Section 5136 limits national banks, in dealing and under writing, to United States Government obligations, general obligations of States or subdivisions, and obligations issued under the Federal Farm Loan Act or by the Federal Home Loan Banks or the Home Owners Loan Corporation.) It also would be made clear that section 21(a)(1) does not prohibit a bank from selling without recourse or agreement to repurchase, obligations evidencing loans on real estate.

SECTION 303(b)

Receipt of Deposits by Persons Not Subject to State or Federal Regulation.

The bill would repeal section 21(a)(2) of the Banking Act of 1933 which prohibits persons not subject to State or Federal examination and regulation from receiving deposits unless they submit to examination by the Comptroller of the Currency or the Federal Reserve Bank of the district, and make and publish periodic condition reports.

SECTION 304.

Double Liability on National Bank Stock Terminated.

Section 22 of the Banking Act of 1933, which ended double liability on national bank stock issued after June 16, 1933, would be amended to permit termination on July 1, 1937, of the double liability on previously issued stock in national banks operating on that latter date. The bank

would be required to publish notice of such termination six months before July 1, 1937 in order to terminate such liability on that date, or it could terminate such liability after that date by publishing such notice six months prior to the termination.

SECTION 305

Seasonal Agencies of National Banks.

Section 5155 of the Revised Statutes would be amended to permit a national bank in a State which by statute permits State banks to maintain branches within county or greater limits, to establish, with the approval of the Comptroller of the Currency, without regard to the capital requirements of the section, a "seasonal agency in any resort community" in the same county as the main office of such bank. However, the privilege would apply only if no other bank was doing business in the place where the agency would be located, and any permit for such an agency would be revoked upon the opening of a State or national bank in such community.

SECTION 306.

Directors of Nonmember National Banks Relieved of Stock Ownership Requirement.

Section 4 of the Act of June 16, 1934, which relieved directors of member banks from the stock ownership requirement of section 31 of the Banking Act of 1933, would be amended to eliminate such requirement also as to nonmember national banks, such as those in Alaska and Hawaii.

SECTION 307.

Interlocking Relationships Between Member Banks and Securities Companies.

Section 32 of the Banking Act of 1933 would be rewritten, effective

January 1, 1936, to make the prohibitions against interlocking relationships between member banks and securities companies extend to the employees of both such organizations in addition to their officers and directors; and individuals engaged in the securities business would be subjected to the same prohibitions as officers of companies and members of partnerships so engaged.

Permission of the Board for such interlocking relationships would be given "in limited classes of cases" and by "general regulations" rather than by individual permit. Such relationships could be permitted when they "would not unduly influence the investment policies of such member bank or the advice it gives its customers regarding investments", rather than when they would be "not incompatible with the public interest".

The securities companies whose officers and employees are subjected to these disabilities would be changed from those "engaged primarily in the business of purchasing, selling or negotiating securities" to those "primarily engaged in the issue, flotation, underwriting, public sale or distribution, at wholesale or retail, or through syndicate participation, of stocks, bonds, or other similar securities". The prohibition against correspondent relationships between member banks and securities companies would be eliminated.

SECTIONS 308(a) and 308(b).

Change in Amount of Investment Securities of one Obligor That May Be Held By Member Bank.

Section 5136 of the Revised Statutes would be amended to eliminate the existing prohibition against a member bank purchasing and

holding more than 10 per cent of a particular issue of investment securities, but the total obligations of one obligor which may be purchased and held by a member bank would be reduced from 15 per cent of the bank's paid in and unimpaired capital and 25 per cent of its unimpaired surplus, to 10 per cent of each, though banks would not be required to dispose of securities lawfully held on the date of enactment of the bill.

Purchase of Stocks for Account of Customers.

It would be made clear, in conformity with previous rulings of the Comptroller of the Currency and the Board, that national and other member banks may purchase and sell stocks for the account of their customers but not for their own accounts.

Purchase of Securities by National Banks.

The term "investment securities" would be changed to "securities" in the provision of section 5136 of the Revised Statutes which restricts the purchase of such obligations by national banks, thus making it clear that a security does not have additional privileges of purchase by reason of a failure to conform to the definition of "investment securities" given elsewhere in the section.

SECTION 309.

Surplus Required for Organization of National Banks.

Section 5138 of the Revised Statutes would be amended to require for the organization of a new national bank, a paid in surplus of 20 per cent of its capital, but the Comptroller of the Currency would be permitted to waive this requirement as to a converting State bank.

SECTION 310

Separation of National Bank Stock Certificates From Those of Other Corporations.

The requirement of section 5139 of the Revised Statutes that stock certificates of national banks may not "represent the stock" of any other corporation, except a member bank or a corporation existing on the date the paragraph took effect "engaged solely in holding the bank premises of such association", would be changed so that such certificates merely may not "bear any statement purporting to represent the stock" of any other corporation, except a member bank or a corporation existing on the date of enactment of the bill "engaged primarily in holding the bank premises". A similar change would be made in the exceptions to the prohibition against the transfer of national bank shares being conditioned upon the transfer of shares of other corporations. A provision would also be added to the effect that the section shall not operate to prevent the transfer of stock of another corporation being conditioned upon the transfer of a national bank stock certificate.

SECTION 311(a).

Voting Rights of National Bank Preferred Stock.

Section 5144 of the Revised Statutes would be amended to make it clear that it does not limit the voting rights of holders of preferred stock of a national bank under provisions of articles of association or amendments thereto adopted pursuant to sec. 302(a) of the Emergency Banking Act of March 9, 1933, as amended.

Voting Permit Unnecessary for Liquidation.

Section 5144 of the Revised Statutes would be amended to eliminate the necessity for a voting permit in cases where shares of a member bank held by a holding company affiliate are to be voted merely in favor of placing the bank in voluntary liquidation or taking any other action pertaining to voluntary liquidation of the bank.

Shares of Own Stock Held by National Bank as Sole Trustee.

The prohibition in section 5144 against a national bank voting its own stock when held by it as sole trustee, would be relaxed to apply only in the election of directors; and even in the election of directors such stock could be voted if the donor or beneficiary of the trust, under authority of the trust, should direct how the stock is to be voted. A provision would be added to the effect that whenever shares cannot be voted on account of the prohibition mentioned above, they shall be excluded in determining whether matters voted upon by the shareholders were adopted by the requisite percentage of shares.

SECTION 311(b).

Limited Voting Permits and Cumulative Voting Clarified.

Section 5144 of the Revised Statutes would be amended to make it clear that holding company affiliates which have obtained a voting permit are entitled to the right of cumulative voting given other shareholders by the section, and also to make it clear that the Federal Reserve Board may issue limited voting permits and is not con-

fined to issuing general voting permits. Both these changes conform with previous rulings of the Board.

SECTION 312.

Retention of Ineligible Assets By Converting Banks.

Section 5154 of the Revised Statutes would be amended to authorize the Comptroller of the Currency to permit State banks converting into national banks to retain and carry, at a value determined by the Comptroller, assets not permitted to be acquired and held by national banks.

SECTION 313.

Comptroller May Delegate Countersigning.

Section 5162 of the Revised Statutes would be amended to authorize the Comptroller of the Currency to designate a person or persons to countersign on his behalf assignments and transfers of bonds.

SECTION 314.

Interest Rates Charged By National Bank Branches Outside United States.

Section 5197 of the Revised Statutes would be amended to permit national bank branches located outside the States of the United States and the District of Columbia to charge interest at the rate permitted by local law.

SECTION 315.

Accumulation of Surplus by National Bank.

Section 5199 of the Revised Statutes would be amended to make the requirement that a national bank carry one-tenth of earnings to the surplus fund before declaring a dividend, apply only to the declaration

of a dividend on its common stock, and also to change the amount of surplus to be accumulated, from 20 per cent of its "capital stock" to 100 per cent of its "common capital".

SECTION 316.

Criminal Provisions re Embezzlements, False Entries, etc., Extended to Insured Banks.

The criminal provisions of section 5209 of the Revised Statutes relating to embezzlements, false entries, etc. would be extended to apply to officers, directors, and employees, etc., of insured banks.

SECTION 317.

Voluntary Liquidation of National Banks.

A paragraph would be added to section 5220 of the Revised Statutes to provide a procedure to be followed in cases of voluntary liquidation of national banks as authorized by that section. Liquidation would be accomplished by a liquidating agent or committee which would be responsible to the bank's directors and stockholders, and the bank would remain subject to examination by the Comptroller of the Currency.

SECTION 318.

Prohibition of Use of Words "National", "Federal", and "United States".

Section 5243 of the Revised Statutes which now prohibits the use of the word "national" in certain cases would be rewritten so as to prohibit the use of the words "national", "Federal", or "United States" as a part of the name or title of any person, firm

or corporation doing the business of bankers, brokers or trust or savings institutions unless organized under the laws of the United States or permitted by the laws of the United States to use such name or now lawfully using such name.

SECTIONS 319(a) and 319(b).

Reduction in Federal Reserve Bank Stock to Conform to Reduction in Member Bank's Surplus.

Section 5 of the Federal Reserve Act would be amended to require member banks to reduce their holdings of Federal reserve bank stock upon a reduction in their surplus, just as they are already required to do upon a reduction in their capital.

Certification to Comptroller of the Currency Upon Change in Capital Stock of Federal Reserve Bank.

The provisions of section 5 of the Federal Reserve Act requiring the directors of a Federal Reserve bank to execute a certificate to the Comptroller of the Currency upon an increase in the capital stock of such bank, and the provisions of section 6 of the Federal Reserve Act requiring a similar certification upon a reduction in such capital stock, would be eliminated.

SECTION 320.

Publication of Condition Reports of State Member Banks.

Section 9 of the Federal Reserve Act would be amended to authorize the Federal Reserve Board to prescribe the information to be contained in, and form of, condition reports of State member banks,

and to require publication of such reports under regulations of the Board.

SECTIONS 321(a) and 321(b).

Limitation on Loans by Member Banks on Government Obligations.

Section 11(m) of the Federal Reserve Act would be amended to place State member banks on a parity with national banks in lending on the security of bonds or notes of the United States issued since April 24, 1917, certificates of indebtedness of the United States, or Treasury bills of the United States, by changing the limitation on loans to one individual on such security, from 10 per cent of the bank's unimpaired capital and surplus to 25 per cent thereof, as provided for national banks in section 5200 of the Revised Statutes. The latter provision would be amended to make it clear that it covers Treasury bills of the United States as well as the other government obligations listed above.

SECTION 322

Indorsement or Other Security Sufficient for Reserve Bank Discounts for Individuals.

The third paragraph of section 13 of the Federal Reserve Act would be amended to require either indorsement or other security, rather than both, for paper discounted by Federal reserve banks for individuals or corporations unable to secure adequate credit accommodations from other banks.

SECTION 323

Changes in Wording of Section 13 (b) of Federal Reserve Act.

This section would make certain changes in the language of section 13b of the Federal Reserve Act, making it conform to the amendment in Title I of the bill whereby stock of the Federal Deposit Insurance Corporation subscribed for by the Federal reserve banks would be changed to no par value. These changes in section 13b, however, are in form only and do not alter the effect of the existing law.

SECTION 324(a)

Definition of Various Classes of Deposits by Federal Reserve Board.

The definitions of "demand deposits" and "time deposits" would be stricken from section 19 of the Federal Reserve Act, and instead, the Federal Reserve Board would be authorized to define for the purposes of the section the terms: "demand deposits","gross demand deposits", "deposits payable on demand", "time deposits",

"savings deposits" and "trust funds", to determine what is to be deemed a payment of interest and to prescribe regulations to effectuate the purposes of the section; but the term "time deposits" would continue to include "savings deposits" for the purposes of the provision regarding member bank reserve requirements.

SECTION 324(b)

Deduction of "Amounts Due From Banks" in Computing Reserves.

Section 19 of the Federal Reserve Act would be amended so that, for purposes of computing member bank reserves, amounts due from other banks (except Federal reserve banks and foreign banks) and certain cash items in process of collection could be deducted from gross demand deposits rather than merely from amounts due to other banks.

SECTION 324(c)

Board's Control Over Payment of Deposits and Interest Made More Flexible.

Section 19 of the Federal Reserve Act would be amended to add to the exemptions from the prohibition against the payment of interest on demand deposits: (1) contracts existing when a bank joins the System, (2) deposits payable outside the States of the United States and the District of Columbia (rather than merely those payable in foreign countries), (3) deposits made by savings banks as defined in Section 12b of the Federal Reserve Act, (4) deposits of trust funds on which interest is required by State law, (5) deposits of the United States, its territories, districts or possessions on which interest is required by law.

The section also would be amended to make more flexible the Board's power to classify time and savings deposits and limit the rates of interest to be paid thereon. The absolute prohibition against the payment of time deposits before maturity would be relaxed to permit such payments under conditions prescribed by the Board; and deposits payable only at offices of member banks located outside the States of the United States, and the District of Columbia would be exempted from all restrictions on payment before maturity and all restrictions on interest rates.

SECTION 324(d)

Reserves Required on Government Deposits.

At the end of Section 19 of the Federal Reserve Act a new paragraph would be added requiring member banks to keep the same reserves against deposits of the United States as against other deposits, thus repealing the contrary provisions of the Liberty Bond Acts.

SECTION 325

Waiver of Reports or Examinations of Affiliates.

A new paragraph would be added to section 21 of the Federal Reserve Act to permit the Federal Reserve Board or the Comptroller of the Currency, as the case may be, to waive examination of, or reports from, affiliates of a member bank, when they are "not necessary to disclose fully the relations between such affiliate and such bank and

the effect thereof upon the affairs of such bank".

SECTION 326(a)

Criminal Provisions Clarified, Extended to Insured Banks.

Section 22(a) would be amended to make it clear that the prohibitions against loans or gratuities to bank examiners from member banks, and their officers and employees, apply only to banks subject to examination by such examiners; and also to make it clear that these prohibitions and the prohibitions against thefts by examiners apply to State examiners examining member banks as well as to Federal examiners, but not to private examiners. The prohibitions would be extended to cover insured banks.

SECTION 326(b)

Federal Deposit Insurance Corporation Examiners Subjected to Criminal Provisions.

The prohibition in section 22(b) of the Federal Reserve Act against a National Bank Examiner receiving compensation from any bank, or officer or employee thereof, would be extended to Federal Deposit Insurance Corporation examiners; and the restrictions against examiners revealing the borrowers or collateral of member banks would be extended to cover insured banks.

SECTION 326(c)

Borrowings by Executive Officers of Member Banks - Elimination of Criminal Penalty.

Section 22(g) of the Federal Reserve Act forbidding executive officers of member banks to borrow from their banks would be amended by giving the Federal Reserve Board power to remove such officers for violations, rather than subjecting them to the present penalty of $5,000 and/or a year in jail. The $10,000 fine on the bank would be eliminated.

The period permitted for renewing such loans that were outstanding on June 16, 1933, would be extended from June 16, 1935, to June 16, 1938, but a finding by the bank directors that such renewal is in the bank's interest and that the officer has made reasonable effort to reduce his obligation would have to be spread on the bank's minute book. With the prior approval of a majority of the bank's directors, loans not exceeding $2,500 from a member bank to an executive officer would be permitted. Borrowing by a partnership in which one or more executive officers have individually or collectively a majority interest would be stated to be within the prohibition, whereas the existing law prohibits loans to partnerships in which an executive officer has any interest. It would be made clear that, in order to aid or protect the bank, executive officers may indorse paper previously taken by the bank in good faith, or may incur any indebtedness to the bank. The Board would be given power to define terms used in the section and prescribe regulations to effect its purposes.

SECTION 327

Restrictions on Loans to Affiliates Relaxed.

The exemptions from the limitations of section 23A on member banks' loans to affiliates and loans on and investments in the securities of affiliates, would be broadened to exempt from its provisions (1) affiliates engaged "primarily" in holding the bank premises (the existing law requires them to be "solely" so engaged), (2) affiliates primarily engaged in maintaining and operating properties acquired for banking purposes prior to enactment of the bill, (3) wholly owned subsidiaries of foreign banking corporations organized under the Federal Reserve Act, (4) wholly owned subsidiaries of similar corporations in which national banks are authorized to invest under section 25 of the Federal Reserve Act, (5) affiliates engaged solely in holding obligations of, or fully guaranteed as to principal and interest by, the United States, (the present exemption applies only to affiliates holding such direct obligations), (6) affiliates which became such through a bona fide previous debt, and (7) affiliates which are such because their shares are held by the bank as fiduciary (except when the beneficiaries are a majority of the bank's stockholders).

The section would also be made inapplicable to affiliate indebtedness arising from the unpaid balance due on assets purchased from the bank, and to loans secured by, and certain transactions in, obligations of, or fully guaranteed as to principal and interest by the United States.

SECTION 328.

"Working Capital" Loans Relieved of Real Estate Restrictions.

Section 24 of the Federal Reserve Act would be amended to exempt from the restrictions of that section on real estate loans, all "working capital" loans in which the Reconstruction Finance Corporation or a Federal reserve bank has participated or made a commitment, or which it has discounted, loaned upon or purchased.

SECTION 329.

Interlocking Bank Directorates.

Section 8A of the Clayton Act which restricts interlocking relationships between banks and trust companies organized or operating under the laws of the United States and institutions which "make loans secured by stock or bond collateral" would be eliminated, effective January 1, 1936.

Effective the same date, section 8 of the Clayton Act would be rewritten to apply to all member banks rather than banks organized or operating under the laws of the United States; and a definite prohibition against a private banker, or a director, officer, or employee of any other bank, savings bank (other than a mutual savings bank), or trust company serving as officer, director, or employee of a member bank, would be substituted for the existing restrictions that depend upon the size of the banks and of the cities in which they are located. Authority of the Board to relax this prohibition by "general

regulations" in "limited classes of cases" when "such classes of institutions are not in substantial competition", would be substituted for its existing power to allow the service of one individual to a limited number of institutions by issuing individual permits when "not incompatible with the public interest".

SECTIONS 330 (a)
and 330 (b)

National Bank Consolidations.

Section 1 of the Act of November 7, 1918 (U.S.C., Title 12, section 33) would be amended to clarify the provisions relating to consolidations of national banks, particularly with respect to dissenting stockholders.

SECTIONS 331 (a)
and 331 (b)

Consolidation of State and National Banks.

By provisions similar to those of the previous section of the bill, section 3 of the Act of November 7, 1918 (U.S.C., Title 12, section 34(a)) would be amended to clarify the provisions relating to consolidations of State and national banks, particularly with respect to dissenting stockholders.

SECTION 332.

Limitation on use of words "Deposit Insurance".

Section 2 of the Act of May 24, 1926, (U.S.C., Title 12, sections 584-588) forbidding the misleading use of the words "Federal", "United States", and "Reserve" by banks, insurance companies, and similar financial institutions would be amended to forbid such use of the words "Deposit Insurance".

SECTION 333.

Robbery of Insured Bank Punished.

The Act of May 18, 1934 (48 Stat. 783) punishing robberies of member banks and of banking institutions organized or operating under Federal law, would be amended to extend such protection to insured banks.

SECTION 334

Reduction in Stock of National Bank.

Section 5143 of the Revised Statutes would be amended to eliminate the necessity for a national bank obtaining the approval of the Federal Reserve Board, in addition to the approval of the Comptroller of the Currency, before reducing its capital stock. Distribution to stockholders of cash or other assets by reason of a reduction in common capital would not be permitted except upon approval of the Comptroller of the Currency and the affirmative vote of at least two-thirds of the shares of each class of stock outstanding, voting by classes.

SECTION 335

Information on National Bank Stock Certificates.

Section 5139 of the Revised Statutes would be amended to require certain information to be set forth on stock certificates issued in the future by national banks. If more than one class of stock is issued, the rights, privileges, etc., of each class of stock also would have to be stated in full, summarized, or incorporated by reference, on the certificate.

SECTION 336.

Issuance of Preferred Stock by National Bank.

Section 301 of the Emergency Banking Act of March 9, 1933, would be amended to clarify the provision that no issue of national bank preferred stock shall be valid until the par value of all stock so issued shall be paid in. Notice of such payment, acknowledged before a notary by the president, vice president, or cashier of the bank, would first have to be forwarded to the Comptroller of the Currency, and his certificate setting forth such payment and his approval of the issue would have to be obtained. Then the certificate would be conclusive evidence that the preferred stock was duly and validly issued.

SECTION 337.

Double Liability on District of Columbia Bank Stock Terminated.

Provision would be made to terminate on July 1, 1937, the double liability on stock of certain savings banks, banking institutions and trust companies located in the District of Columbia. The procedure would be similar to that provided in section 304 of the bill for terminating such liability on certain national bank stock.

SECTION 338

Branches of State Member Banks.

Section 9 of the Federal Reserve Act would be amended to require the approval of the Federal Reserve Board, instead of the Comptroller of the Currency, for State member banks to establish or maintain certain branches on the same basis as national banks. Except for substituting the approval of the Federal Reserve Board for that of the Comptroller of the Currency, no change would be made in the law regarding branches of such banks.

SECTION 339.

Security for National Bank Receivership Funds Deposited in Insured Bank.

The requirement of section 5234 of the Revised Statutes that deposits of national bank receivership funds be secured by the deposit of Government bonds or other securities, would be eliminated as to those parts of such deposits which are insured under Sec. 12B of the Federal Reserve Act.

SECTION 340.

Security for Bankruptcy Funds Deposited in Insured Bank.

The requirement of section 61 of the Bankruptcy Act that deposits of bankruptcy funds be secured by banks, would be eliminated as to those parts of such deposits which are insured under section 12B of the Federal Reserve Act.

SECTION 341.

Interest on Postal Savings Deposits.

Section 8 of the Postal Savings Depository Act of June 25, 1910, as amended by section 11(c) of the Banking Act of 1933, would be amended to clarify the provisions regarding the withdrawal of postal savings deposits, and also to prevent the rate of interest paid on such deposits exceeding the rate which may lawfully be paid on savings deposits by member banks located in or nearest to the place where the depository office is situated.