

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 17, 1940To The FilesSubject: Conversation with Mr. Charles
W. Collins re licensing of
State member banks.From Mr. Wyatt, General Counsel

Mr. Charles W. Collins, Washington legal representative of the Bank of America N. T. & S. A., of San Francisco, California, called me on the telephone this morning and we had a conversation, the substance of which is set forth below:

Mr. Collins started by saying that he wanted some "free legal advice". He said that his opinion had been requested on the question whether it is necessary for a new State bank applying for membership in the Federal Reserve System to obtain a license from the Secretary of the Treasury.

I told him that the answer to the question is "yes". He expressed some surprise and wanted to know where the legal requirement is. I suggested that he read section 5(b) of the Trading With the Enemy Act and section 4 of the Emergency Banking Act of March 9, 1933.

He said that he had them before him and had already read them. I then went on to explain that, under the proclamations issued by the President at the time of the bank holiday and which have not yet been revoked or repealed, member banks are forbidden to transact any business except to the extent permitted by licenses issued by the Secretary of the Treasury.

Mr. Collins expressed surprise at this and inquired whether the Board could approve a State bank for membership without a license having been issued.

I replied that the Board could approve a bank for membership prior to the issuance of a license; but that, in practice, a bank is not permitted to complete its membership until it has obtained a license from the Secretary of the Treasury.

Mr. Collins then commented that, if the bank has to get a license from the Secretary of the Treasury, it might as well work the matter out with the Secretary in the first place and that the bank "couldn't afford to put itself out on a limb and run the risk of losing its deposit insurance".

(I did not point out to Mr. Collins that a nonmember insured bank does not need to have a license, because he might have construed it as a suggestion that the bank should reorganize as a nonmember bank. Furthermore, I had explicitly stated that "member banks" are required

to obtain licenses and I felt that he ought to be able to reach his own conclusions or at least make his own inquiries about nonmember insured banks.)

Mr. Collins then wanted to know the exact mechanical steps by which a license is issued and whether the Board's regulations or conditions of membership require newly admitted State banks to obtain licenses.

I did not have the details at my fingertips, but conferred with Mr. Wingfield and called Mr. Collins back and advised him as follows:

There is nothing in the Board's regulations or conditions of membership requiring State member banks to obtain licenses; but the Board has issued general instructions to the Federal Reserve banks under which they do not issue Federal Reserve bank stock to newly admitted State banks until such banks have obtained licenses. I told him that, after the Board has approved a bank for membership, the Federal Reserve bank telegraphs the Secretary of the Treasury recommending that a license be issued to the bank, and the Secretary sends the Federal Reserve bank a telegraphic reply authorizing it to issue a license to the bank, as agent for the Secretary of the Treasury. The Federal Reserve bank will not issue the Federal Reserve bank stock until the issuance of the license has been authorized.

I told Mr. Collins that the Federal Reserve banks have no blanket authority to issue such licenses as agents for the Secretary of the Treasury but issue them only upon specific authorization by the Secretary in each individual case.

Mr. Collins then commented, "That sews it up completely".

Mr. Collins had requested a copy of Regulation H in its latest revised form and, after arranging for him to send to this office for a copy, the conversation was terminated.

A handwritten signature in dark ink, appearing to read "Walter Wyatt", with a stylized, flowing script.

Walter Wyatt,
General Counsel.