

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS. 75222

Circular No. 70-256
October 26, 1970

To the Chief Executive Officer of the
State Member Bank Addressed:

On the reverse side of this circular is a letter from Arthur F. Burns, Chairman of the Board of Governors of the Federal Reserve System, addressed to the chief executive officer of each member State bank, transmitting views expressed by the Department of Justice on certain aspects of interbank deposits.

A similar letter is being sent to national banks by the Comptroller of the Currency and to nonmember insured banks by the Chairman of the Federal Deposit Insurance Corporation.

Yours very truly,

P. E. Coldwell

President



CHAIRMAN OF THE BOARD OF GOVERNORS
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

October 26, 1970

TO THE CHIEF EXECUTIVE OFFICER OF EACH MEMBER STATE BANK:

I would like to bring to your attention the following views expressed by the Assistant Attorney General in charge of the Criminal Division of the Department of Justice in a letter to the Comptroller of the Currency with respect to the use of interbank deposits as compensating balances for loans to individuals connected with the depositing bank:

"Reference is made to the conversations which representatives of the Criminal Division have had with you and members of your staff concerning the practice of bank officials utilizing the correspondent accounts of their banks for the purpose of compensating lending banks for loans granted to these officials. By using these non-interest bearing correspondent accounts in this manner, some borrowing officials have been able to obtain loans at preferential rates and to circumvent other statutes and administrative regulations promulgated for the protection of Federally regulated or insured banks. Since the borrower maintains these balances as a condition of the loan, he is able to utilize the funds and credits of his bank for his own personal benefit.

"Investigation into this area disclosed that this practice is fairly widespread, particularly in certain areas of the country, both in the initial acquisition of a bank and at subsequent times. There are no cases, at the present time, construing this practice as a misapplication under the criminal statutes. We believe, however, that where the facts demonstrate a clear detriment to the bank and a concomitant benefit to its officers this activity would, at a minimum, constitute a breach of the fiduciary duty owed by the officials to the bank and might in certain situations warrant prosecutive action.

"In light of the foregoing, your office, together with the Federal Deposit Insurance Corporation, the Federal Reserve Board, and the Federal Home Loan Bank Board, may wish to consider advising the banking industry of our view that the above practice might constitute a violation of Federal criminal statutes."

Sincerely yours,

A handwritten signature in dark ink, appearing to read "Arthur F. Burns", is written above the printed name.

Arthur F. Burns