

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Monday, August 24, 1936, at 11:00 a. m.

PRESENT: Mr. Ransom, Vice Chairman
Mr. Broderick
Mr. Szymczak
Mr. Davis

Mr. Morrill, Secretary
Mr. Bethea, Assistant Secretary
Mr. Carpenter, Assistant Secretary

Consideration was given to each of the matters hereinafter referred to and the action stated with respect thereto was taken by the Board:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 21, 1936, were approved unanimously.

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on August 22, 1936, were approved and the actions recorded therein were ratified unanimously.

Telegram to Mr. Geery, Chairman of the Federal Reserve Bank of Minneapolis, stating that the Board approves the establishment without change by the bank today of the rates of discount and purchase in its existing schedule.

Approved unanimously.

Bond, in the amount of \$50,000, executed under date of August 21, 1936, by Mr. Iova James Reed as Acting Assistant Federal Reserve Agent at the Houston Branch of the Federal Reserve Bank of Dallas.

Approved unanimously.

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Letter to Mr. Fletcher, Vice President of the Federal Reserve Bank of Cleveland, reading as follows:

"Receipt is acknowledged of your letter of August 1, 1936, in which you inform the Board that in the course of the examination of the Dollar Savings and Trust Company, Youngstown, Ohio, in regard to its application for membership, it developed that the bank had an affiliate, the Thornton Laundry and Dry Cleaning Company. It appears that the bank failed to report this affiliate for the reason that it did not realize an affiliation existed, and that steps are being taken to terminate the affiliation through a plan whereby a trustee other than the bank will be named, who will act as a depository for the stock of the Laundry Company and who will exercise full voting powers with respect to this stock.

"Since it appears that the Dollar Savings and Trust Company did not understand that an affiliate relationship existed between it and the Thornton Laundry and Dry Cleaning Company, the Board will not at this time require submission and publication of a report of the affiliate as of June 30, 1936. If, however, the affiliation is in existence at the time of the next call, and the terms of the Board's general waiver of reports do not apply, submission and publication of the affiliate's report will be necessary."

Approved unanimously.

Letter to Mr. A. Kenneth Spaulding, Executive Vice President, Tompkins County Trust Company, Ithaca, New York, reading as follows:

"The office of the Comptroller of the Currency has referred to the Board of Governors of the Federal Reserve System for reply your letter of May 18, 1936, inquiring whether section 22(a) of the Federal Reserve Act prohibits a State member bank from making a loan to a national bank examiner. It is assumed that you desire to be advised as to whether the Tompkins County Trust Company may make a loan of this kind. In this connection, section 22(a) of the Federal Reserve Act, as amended by the Banking Act of 1935, approved August 23, 1935, provides in part as follows:

'No member bank * * * and no officer, director, or employee thereof shall hereafter make any loan or

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"grant any gratuity to any bank examiner or assistant examiner who examines or has authority to examine such bank. Any bank officer, director, or employee violating this provision shall be deemed guilty of a misdemeanor and shall be imprisoned for not exceeding one year, or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned or gratuity given.

'Any examiner or assistant examiner who shall accept a loan or gratuity from any bank examined by him, or from an officer, director, or employee thereof * * *, shall be deemed guilty of a misdemeanor and shall, upon conviction thereof in any district court of the United States be imprisoned for not exceeding one year, or fined not more than \$5,000, or both, and may be fined a further sum equal to the money so loaned, gratuity given, * * *.' (Underscoring supplied)

"Your inquiry presents the question whether a national bank examiner to whom the Tompkins County Trust Company proposes to make a loan is a bank examiner 'who examines or has authority to examine such bank' within the meaning of the provisions of section 22(a) of the Federal Reserve Act above quoted. There is no authority in the law for a national bank examiner as such to participate in or make an examination of a State member bank, except possibly under certain circumstances where a State member bank is a holding company affiliate of a national bank as defined in section 2(c) of the Banking Act of 1933 or is owned or controlled by a holding company affiliate of a national bank. It is understood that no relationship of this kind exists in the case of the Tompkins County Trust Company, and, on this basis, a national bank examiner would not as such have authority to examine the Tompkins County Trust Company.

"Section 22(a) of the Federal Reserve Act prescribes a criminal penalty for a violation of its provisions. Accordingly, the administration of the statute falls within the jurisdiction of the Department of Justice rather than of the Board of Governors of the Federal Reserve System and, for this reason, it is not the usual practice of the Board to express an opinion on questions arising under such a statute. In this particular case, however, in view of all the circumstances described above, it seems clear that section 22(a) does not forbid the Tompkins County Trust Company to make a

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"loan to a national bank examiner.

"Of course, in any case in which your trust company may propose to make a loan to a bank examiner, it should carefully examine into the facts involved in the particular case in order to ascertain whether the examiner to whom it is proposed to make the loan, by reason of special circumstances or otherwise, has authority to examine your institution.

"The Board is not attempting at this time to express any opinion as to the applicability of section 22(a) to a loan to a national bank examiner by a State member bank which is a holding company affiliate of a national bank or which is owned or controlled by a holding company affiliate of a national bank, and, if at any time a relationship of this kind should exist in the case of the Tompkins County Trust Company, further consideration should be given to this phase of the matter in the event that the bank desires to make a loan to a national bank examiner."

Approved unanimously.

Letter to Mr. O'Connor, Comptroller of the Currency, reading as follows:

"This refers to Mr. Gough's letter of July 7, 1936, regarding the applicability of section 22(g) of the Federal Reserve Act and the Board's Regulation O to the liability to a bank of an executive officer of a member bank arising as the result of his indorsement of the note of a partnership in which he has less than a majority interest.

"You have not furnished detailed facts as to the circumstances involved in the particular case and as to why indorsement by the individual partner on the partnership obligation is desirable. Therefore, the Board is not in a position to undertake to rule upon a particular case, but it will advise as to its views with respect to the general question whether the liability to a bank resulting from such an indorsement comes within the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O.

"If an executive officer is a member of a partnership under an agreement whereby his liability for partnership debts is limited, and is, therefore, liable under the law

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"for the debts of the firm only to the extent of his contribution to its assets or to a limited extent on some other basis, his individual indorsement of a note of the partnership would clearly increase the extent of his liability.

"Even in the case of an unlimited partnership, the act of a partner in adding his individual indorsement to a note of the partnership would appear to create a liability distinct from, and in addition to, his liability as a partner arising by operation of law. In the marshaling of assets of an insolvent partnership, it appears to be a general rule in equity that firm creditors shall be paid first from partnership property and that they may not resort to the individual property of a partner until the partner's individual creditors have been paid in full. However, a creditor holding the note of a partnership bearing the individual indorsement of one of the partners would be an individual as well as a firm creditor and would, therefore, be entitled to payment from the individual property of the partner in preference to other firm creditors. In this respect, the liability of the indorsing partner would appear to be greater, as to the holder of the partnership note indorsed by him, than it would have been had he not indorsed such note.

"As indicated in the Board's letter to you under date of April 4, 1936, it seems clear that the prohibitions of section 22(g) of the Federal Reserve Act are not applicable to a loan by a member bank to a partnership in which one or more executive officers of such bank have either individually or together less than a majority interest. As stated in the Board's letter, it is believed that the evident policy of the law to exempt such partnership loans would be defeated if the law were construed as including the liability of an executive officer who is a member of such a partnership arising solely by virtue of the operation of law which makes him individually liable as a partner for the debts of the firm. However, the Board does not feel that it would be justified in extending the exemption permitted by the statute beyond the point clearly contemplated by its provisions and beyond the point necessary to give full effect to the purposes of the statute.

"In the circumstances, it is the view of the Board that the liability to a bank of an executive officer of a member bank arising from his indorsement of a note of a partnership in which he has less than a majority interest would constitute

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"a liability falling within the provisions of section 22(g)
of the Federal Reserve Act and the Board's Regulation O."

Approved unanimously.

Thereupon the meeting adjourned.

Chester Morice
Secretary.

Approved:

Donald Anderson
Vice Chairman.