

CONFIDENTIAL

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F E D E R A L R E S E R V E B O A R D .

Permission granted under Section 11, Sub-Section K, of the Federal Reserve Act for National Banks to act as trustee, executor, administrator, and registrar of stocks and bonds.

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To Federal Reserve Agents:

In order that the powers of national and State banks and trust companies as members of the Federal Reserve System may be equalized as far as possible, the Board desires to grant to national banks applying therefor, when not in contravention of State or local laws, permission to act as trustee, executor, administrator, and registrar of stocks and bonds. In acting on applications, however, for such permits, it is necessary that the Board should take into consideration,

First: Whether or not the exercise of these powers, or any of these powers, will be in contravention of State or local law.

Second: Whether the applying bank is in proper condition and is equipped to handle this class of business, and whether a permit will, under the circumstances, prove of benefit to such bank.

In order to pass upon the question of whether or not action under the permit will contravene State or local laws, the Board has requested Counsel for the various Federal reserve banks to analyze the laws of the States in the several districts and file his opinion with the Board. In view of the lack of uniformity in the laws of the several States it is difficult, if not impossible, to prescribe any fixed rules by which this question may be determined. Inasmuch as National banks are incorporated under Federal law, the statutes of the various States necessarily have a very limited application, but in this instance Congress has expressly provided that State laws shall not be contravened, just as it did in the case of usury laws of the several States.

There are probably no States whose statutes in terms prohibit National banks from exercising these powers, and few which expressly authorize their exercise. The question under consideration, therefore, cannot be determined by ascertaining merely whether a State law specifically prohibits or specifically authorizes National banks to act as provided by Section 11 (k). Nor is it within the province of the Federal Reserve Board to pass upon the constitutionality of this section. In general, the Board will grant permits in accordance with this section where the exercise of the powers granted does not contravene the general policy of the State laws as indicated

by the statutes dealing with banking institutions and other corporations, and will refuse permits in those cases where such exercise would be clearly in contravention of the general policy of such State laws.

In determining the second question, that is - whether or not in a given case the granting of the permit will prove to the best interest of the applying bank, the Board must necessarily take into consideration the particular circumstances in each instance. Banks having small capital and surplus should, therefore, be requested to indicate the nature and extent of the business it contemplates undertaking. Its equipment and the efficiency of its organization must of necessity be taken into consideration in determining the general character of the estates to be administered.

While the Board does not desire to promulgate at this time any fixed rules as to the proportion that the capital and surplus of the applying bank should bear to the size of the estates to be handled, it is at once manifest that small institutions should not undertake to administer estates which will require a larger and more efficient trust department than such banks will be justified in establishing. Before making any recommendation, therefore, to the Federal Reserve Board that application should be approved or disapproved, Federal Reserve Banks should give consideration to the circumstances, as indicated above.

It is the desire of the Board to cooperate with the member banks through the Federal Reserve Banks in a gradual and conservative development of this class of business. To this end, applications received by the Federal Reserve Bank should be handled in the following manner :

First : They should be submitted to Counsel for the Federal Reserve Bank, who will certify hereon whether or not, in his opinion, there is reasonable ground for believing that the exercise of the powers applied for will not be in contravention of the laws of the State in which the applying bank is located. The application should then be referred to the Board of Directors of the Federal Reserve Bank.

Second: The Board of Directors, after due consideration, should forward the application to the Federal Reserve Board with its recommendation. If, for any reason, the directors are of the opinion that the permission applied for should not be granted, the application should be accompanied by its reasons in writing.

Third: The Federal Reserve Board, under the terms of the Act, can authorize national banks to exercise only those powers which are not in contravention of State or local laws, and if, after a permit is granted, the right to act under it should be questioned by the State authorities, member banks should promptly notify the Federal reserve bank and the Federal Reserve Board, so that arrangements may be made for an adjustment or for a proper adjudication by a court of competent jurisdiction.

Circular letter of March 4, 1915 is superseded by this circular.

4/5/15