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ADDRESS REPLY TO
FEDERAL RESERVE BOARD

October 20, 1917.

Dear Sir:

From inquiries received at this office it appears that the officers of some nonmember State banks and trust companies are under the misapprehension that such banks and trust companies becoming members of the Federal Reserve System are subject to the limitations imposed by Section 5200 Revised Statutes which limit the total liabilities to a national bank of any one person, firm or corporation to an amount not to exceed ten per cent of the capital and surplus of the lending bank.

Where this misapprehension exists attention should be called to the fact that under Section 9 of the Federal Reserve Act as amended, State banks and trust companies becoming members of the Federal Reserve System are not subject to the limitations of Section 5200 but are subject only to such limitations as are imposed by State laws. Such banks may, therefore, make loans to the same person, firm or corporation in any amounts permitted by the State laws. Loans to one person in excess of ten per cent are, however, not eligible for rediscount with a Federal Reserve Bank.

The provision of Section 9 of the Federal Reserve Act bearing on this point is as follows:

"That no Federal Reserve Bank shall be permitted to discount for any State bank or trust company, notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section."

Respectfully,

Governor.