

FEDERAL RESERVE BOARD

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WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-3649

February 28, 1923.

SUBJECT: Advertisements of Member Banks.

Dear Sir:

The Federal Reserve Board has had occasion from time to time to express its views as to the propriety of various forms of advertisements adopted by member banks setting forth the advantages accruing from membership in the Federal Reserve System. A large number of individual letters with reference to this subject have been written in answer to specific inquiries; a number of informal rulings have been published in the Federal Reserve Bulletin; and a comprehensive statement of the Board's views on the subject has been issued in the form of a circular letter addressed to the Chairmen of all Federal Reserve Banks under date of April 3, 1920, (X-1882). Certain recent developments and a further study of the ethical and practical aspects of this problem in the light of experience have led the Board to alter its judgment as to the propriety of certain forms of advertisements which it had formerly approved, though it still adheres to the fundamental principles heretofore expressed. The Board deems it advisable, therefore, to issue at this time a new and comprehensive statement of its views on this subject.

There is, of course, no question that any bank, national or State, which is a member of the Federal Reserve System, may properly advertise the fact of its membership and the nature of the advantages which it actually enjoys as a result of that membership. It is manifestly improper, however, for any bank to issue any statement or to make use of any advertisement which is calculated to mislead the public or which may unintentionally have that effect, and member banks can not be too careful in choosing the language of their advertisements to avoid any statement which may mislead the public or which may appear to have been intended to mislead. Such advertisements not only are unethical, but are likely to cause unfavorable comment and criticism which may shake the confidence of the community in the integrity of the bank's management and thus cause the bank irreparable injury. Furthermore, the Board feels that statements which may mislead the public as to the practical situation are improper, even though they are theoretically or technically accurate.

One of the first rulings which the Board issued on this subject was to the effect that member banks should not advertise that they or their deposits are under "Government protection". (Federal Reserve Bulletin, November, 1915, p. 362.) Similarly, the Board has expressed its disapproval of advertisements containing the statement that member banks are "under Federal control", that their business is "carried on under personal supervision of State and national authorities", or that, "Our membership in the Federal Reserve System means your guaranteed safety."

The advertisements which have caused the Board the greatest difficulty, however, are those which contain statements with reference to the character of supervision to which State member banks are subjected by virtue of their membership in the Federal Reserve System. There is perhaps an unconscious tendency on the part of a number of State member banks to use advertisements which imply that they are under precisely the same supervision as national banks as well as under the supervision of the State banking authorities. Such advertisements are inaccurate and misleading, and the Federal Reserve Board has always opposed them. Thus, the Board has always opposed advertisements by State member banks containing statements to the effect that they are under National supervision or supervision of the National Government; and in the circular letter above referred to the Board said:

"The Board believes, therefore, that when a State member bank uses the word 'National' to describe the supervision to which it is subjected by reason of its membership in the Federal Reserve System, the plausible inference of the public is that the supervision is the same as that to which National Banks are subjected. There is no doubt that that inference must be avoided so far as possible to do so."

While it has previously expressed opinions to the contrary, the Board is now of the opinion that for the same reasons, it is also improper for State member banks to advertise that they are subject to or under Government or Federal supervision, or supervision of the Federal or United States Government. While technically, under the terms of Section 9 of the Federal Reserve Act, State banks are "subject to" examination by the Federal Reserve Board in the sense that the Board has the right to examine them, yet as an actual matter they are not actually examined or supervised by the Federal Reserve Board, and the Act expressly provides that they shall not be subject to examination by the Comptroller of the Currency. It is true that they are subject to examination by the Federal Reserve Banks, but examination by the Federal Reserve Banks does not constitute examination or supervision by the Federal Government, because the Federal Reserve Banks are not branches of the Government and are not even owned by the Government, but are private corporations the entire stock of which is owned by their member banks. Furthermore, the Federal Reserve Banks often do not examine them, but merely accept examinations made by the State authorities.

It may be argued that, because they are technically "subject to" examination by the Federal Reserve Board, which is an independent establishment of the Government, it is not improper for State member banks to advertise that they are subject to or under Federal or Governmental supervision. While such a statement may be technically accurate, however, it is misleading to the public, because the average layman reading such a statement would fail to note this fine technical distinction and would get the impression that such banks actually are supervised by the Government, which

is not in accordance with the facts. Indeed, an advertisement to the effect that a State member bank is subject to or under Federal or Governmental supervision would have little or no advertising value were it not for the fact that it conveys to the public the idea that such a bank actually is examined by the Government in the same manner as national banks.

The Federal Reserve Board has previously expressed the opinion that statements by State member banks to the effect that their membership in the Federal Reserve System gives "double security" or "double protection" are misleading. So, also, while national banks are in a sense "subject to" double supervision, that is, the supervision of the office of the Comptroller of the Currency and the supervision of the Federal Reserve Board through special examinations made by Federal Reserve Banks with the approval of the Federal Reserve Board, nevertheless, it would not be proper for a national bank to advertise that it is under double supervision or supervision which affords "double security" or "double protection" to its depositors.

The Board has heretofore ruled, and is still of the opinion, that it is entirely proper for State member banks to advertise the fact that they are members of the Federal Reserve System and that the resources of the system are available through the rediscount privilege to all member banks.

Any rulings or opinions of the Federal Reserve Board which are inconsistent with the views herein expressed shall be deemed to be superseded by this ruling.

The Federal Reserve Banks are requested to call this matter to the attention of their member banks and to explain to them the opinions of the Federal Reserve Board regarding the advertisements of member banks, with a view to the discontinuance of all advertisements which are considered to be improper or misleading.

By order of the Federal Reserve Board.

Wm. W. Hoxton,
Secretary.

To Chairman of all Federal Reserve Banks.