

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARDX-4010
March 27, 1924.

SUBJECT: Interpretation of the word "borrower" as used
in Section 13.

Dear Sir:

For some time the Federal Reserve Board has had under consideration the question: What is the proper interpretation of the word "borrower" as used in the following provision of Section 13 of the Federal Reserve Act:

"The aggregate of such notes, drafts, and bills bearing the signature or indorsement of any one borrower, whether a person, company, firm, or corporation, rediscounted for any one bank shall at no time exceed ten per centum of the unimpaired capital and surplus of said bank; but this restriction shall not apply to the discount of bills of exchange drawn in good faith against actually existing values".

The question involved is whether the word "borrower" as used in this provision refers to the maker or to the indorser of a promissory note discounted at a member bank and later offered for rediscount at a Federal reserve bank.

The specific facts upon which this question arose were as follows: A cattle dealer sold cattle to various farmers, taking in payment therefor the notes of the individual farmers and discounting these notes with his indorsement at a member bank. The amount of each note was less, but the aggregate amount of all of them was more, than ten per cent of the capital and surplus of the member bank. Under such circumstances, if the cattle dealer who indorsed all the notes were considered the "borrower" the Federal reserve bank could not rediscount such notes in an amount exceeding ten per cent of the member bank's capital and surplus; but if the farmers who were the makers of the notes were to be considered the "borrowers" the notes of each farmer would be eligible for rediscount in an amount not exceeding ten per cent of the member bank's capital and surplus and the aggregate amount of such notes bearing the indorsement of the same cattle dealer, which might be discounted at a Federal reserve bank by a single member bank would be several times ten per cent of the member bank's capital and surplus.

When first called upon to rule on this question, the Federal Reserve Board took the position that, in determining the amount of notes bearing the signature or indorsement of any one borrower which a Federal

reserve bank may legally rediscount for any one member bank under the above quoted provision of Section 13, the maker of a note should be considered the borrower unless it appears that he is an accommodation maker, in which event the indorser who receives the benefit of the loan should be considered the borrower. The Board was asked to reconsider that ruling and, after very careful reconsideration, reaffirmed the position formerly taken.

Subsequently, the Governors' Conference requested the Board to reconsider the question again, and each Federal reserve bank requested its counsel to render an opinion on this subject and submit it to the Federal Reserve Board for the information and assistance of the Board in formulating its final ruling. Opinions of counsel to all Federal reserve banks were finally received and were found to be in hopeless conflict. Some counsel agreed with the position taken by the Board, others took the opposite position, while others, reached still different conclusions.

The Board has carefully reconsidered the entire subject and is of the opinion that the position heretofore taken by it is correct. It rules, therefore, that in determining the amount of notes bearing the signature or indorsement of any one borrower which a Federal reserve bank may legally rediscount for any one member bank under the above quoted provision of Section 13, the maker of a note should be considered the borrower, unless it appears that he is an accommodation maker, in which event the indorser who receives the benefit of the loan should be considered the borrower.

Very truly yours,

D. R. Crissinger,
Governor.

TO GOVERNORS OF ALL FEDERAL RESERVE BANKS.

FEDERAL RESERVE BOARD**WASHINGTON****ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD**March 28, 1924.
X-4011-a**SUBJECT: Regulation H, Series of 1923, as amended
March 27, 1924.**

Dear Sir:-

The Board has amended its Regulation H, Series of 1923, as per the enclosed mimeographed copy thereof. This amended regulation is effective immediately, and you are requested to prepare and send copies to all of your member banks.

Very truly yours,

D. R. Crissinger,
Governor.

(Enclosure)

TO GOVERNORS AND FEDERAL RESERVE AGENTS.