FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-4209

December 13, 1924

SUBJECT: Effect of Consolidation of State Banks on Clayton Act Permits.

Dear Sir:

The opinion of the Federal Reserve Board has been requested as to whether a person who has received the permission of the Board to serve at the same time as director of certain banks, one of which is a State institution which subsequently consolidates with another State bank under State law, will be required to make a new application to the Board after such consolidation in order to continue to serve the consolidated institution together with the other banks which he has been serving.

With reference to the consolidation of national banks the Board ruled on November 6, 1923, (X-3880) as follows:

> "The Board accordingly rules that where a permit is granted to a person to serve as director of a national bank and some other bank, and the national bank subsequently consolidates with another national bank, under the Act of November 7, 1918, the permit will continue to be effective and will authorize the director in question to serve the consolidated national bank and the other bank irrespective of which national bank charter was selected as the basis of the consolidation."

In reaching the conclusion just stated, the Board said:

> "While a permit issued under the Kern Amendment is primarily a personal license to the applying director, giving him the right to serve in certain capacities, it also confers upon the bank involved a definite, though incidental, interest in the director's services and the Board believes that this interest of the bank should be construed as included in the rights, franchises or interests of a consolidating national bank within the meaning of the Act of November 7, 1918."

Under the reasoning of this ruling the Board holds that in any case where two or more banks consolidate under a statute, either Federal or State, which vests in the consolidated institution all the rights, franchises or interests of the consolidating banks, the consolidated in-

stitution would, as a matter of law, have the right to the service of any director of any of the consolidating banks; in other words that a director who is serving a bank by the permission of the Federal Reserve Board may, after his bank consolidates with another, continue to serve the consolidated institution if the statute under which the merger was effected gives to this institution all the rights, franchises and interests of the constituent banks. The Board rules, therefore, that in such cases it will not require the director effected to make application to the Board for a new permit, but the director will be permitted, without any formality, to continue to serve the consolidated institution together with the other banks which he was serving before the consolidation took place.

In every case of this kind, however, the Board will request the Federal Reserve Agent to consider and report with recommendation whether or not the situation existing as a result of the consolidation of the banks involved has so effected the question of competition between the banks upon which the director is serving as to make advisable the revocation of the permit formerly issued. In reporting on these matters the Federal Reserve Agent should consider especially the question of competition between the branches of the consolidated institution, if any, and the other banks which the director is serving.

Very truly yours,

Walter L. Eddy,
Secretary

TO ALL FEDERAL RESERVE AGENTS