

January 16, 1926.

Honorable Louis T. McFadden, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

My dear Congressman:

The Federal Reserve Board has received many complaints about the use of the words "Federal" or "Reserve", or a combination of the two as part of the title of banks, corporations and firms other than Federal reserve banks. In most of these instances it is obvious that such words have been used in an attempt to take advantage of the prestige enjoyed by the Federal reserve banks and to arrogate to the firms or corporations using such words part of the benefits accruing from this prestige, and the Board has felt that not only is this purpose in itself objectionable but also that such use of these words is likely to mislead the public and to cause confusion. Indeed, in several instances it has been found that the use of such words by firms or corporations other than Federal reserve banks actually has led to confusion. The Board has always opposed such use of these words and feels that legislation to remedy the situation is very badly needed.

Under date of September 2, 1922, the Board called this matter to your attention with a request that you endeavor to secure the passage of a law which would prevent this objectionable practice as far as possible; and you introduced at the first session of the 68th Congress a Bill (H.R. 6145) for this purpose, a copy of which is enclosed herewith. This bill, however, was never reported out by the Banking and Currency Committee, and the Board desires to renew its recommendation that this bill, or some other bill having substantially the same effect, be enacted into law at the present session of Congress and to express its hope that you will exert your best efforts to this end.

It will be noted that the first provision of the enclosed bill would prohibit offering for sale as Farm Loan bonds any securities not issued under the terms of the Federal Farm Loan Act. This provision was included in the bill, at the time it was being prepared, at the request of the Farm Loan Board, but the Federal Reserve Board is not advised whether the Farm Loan Board is still desirous of securing the enactment of such legislation.

A precedent for the enactment of a law of this kind is found in Section 5243 of the Revised Statutes which prohibits the

use of the word "national" as part of the title of any bank not organized under the National Bank Act. While the validity of that provision has never been passed upon by the courts, it has been on the statute books since 1873 and its validity has never been questioned. It is well recognized that the good name or reputation of a bank is one of its most valuable possessions and it would seem clear that the same is true of any banking system. Any device or scheme the natural result of which would be to cause banks, corporations or firms of questionable standing to be confused with the Federal reserve banks or which is likely to mislead the public into believing that such banks, corporations or firms are affiliated in some way with the Federal Reserve System endangers the good name and reputation of the Federal Reserve System. It is believed, therefore, that the enactment of legislation to prevent such abuses is necessary to protect the Federal reserve banks and the Federal Reserve System. The Supreme Court of the United States has recognized the principle that the power to create national banks carries with it the power to preserve them, (See First National Bank v. Fellows, 244 U.S. 416 and cases cited), and the same must be true as to the Federal reserve banks. There would seem to be no doubt, therefore, as to the constitutionality of a bill designed to protect the reputation of the Federal reserve banks.

For your information there is also enclosed herewith a copy of a memorandum prepared for the information of the Federal Reserve Board containing a brief statement of the circumstances of each case which has been called to the attention of the Board in which the word "Federal" or the word "Reserve" or a combination of the two has been used as a part of the name of a bank, corporation or firm other than a Federal reserve bank or in the advertising of such a bank, corporation or firm or where such use of these words has been attempted. It is believed that a reading of the facts set forth in this memorandum will convince any one of the necessity for some legislation to prevent such abuses.

As you will note from the memorandum, the Board has sought various ways of preventing the objectionable practices, but usually with little success. The Board has several times requested the aid of the Federal Trade Commission in these matters, but as this body is without jurisdiction over banks or insurance companies its power to render material assistance has necessarily been greatly restricted.

The Federal Reserve Board hopes that you will do all that is possible to secure the introduction and enactment into law of a bill which will provide an effective remedy for this situation.

If agreeable to you, the Board will be glad to furnish a copy of this letter and the enclosed documents to each member of your committee in order that they may study them at their leisure.

Very truly yours,

Enclosures

WW OMC

D. R. Crissinger
Governor

IN THE HOUSE OF REPRESENTATIVES.

January 24, 1924.

Mr. McFadden introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL

To prohibit offering for sale as Federal farm loan bonds any securities not issued under the terms of the Farm Loan Act, to limit the use of the words "Federal", "United States", or "reserve", or a combination of such words, to prohibit false advertising, and for other purposes.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That no bank, banking association, trust company, corporation, association, firm, partnership, or person not organized under the provisions of the Act of July 17, 1916, known as the Federal Farm Loan Act, as amended, shall advertise or represent that it makes Federal farm loans or advertise or offer for sale as Federal farm loan bonds any bond not issued under the provisions of the Federal Farm Loan Act or make use of the word "Federal" or the words "United States" or any other word or words implying Government ownership, obligation, or supervision in advertising or offering for sale any bond, note, mortgage, or other security not issued by the Government of the United States or under the provisions of the said Federal Farm Loan Act or some other Act of Congress.

SEC. 2. That no bank, banking association, trust company, corporation, association, firm, partnership, or person engaged in the banking, loan, building and loan, brokerage, factorage, insurance, indemnity, or trust business shall use the word "Federal", the words "United States", or the word "reserve", or any combination of such words, as a portion of its corporate, firm, or trade name or title or of the name under which it does business: Provided, however, That the provisions of this section shall not apply to the Federal Reserve Board, the Federal Farm Loan Board, the Federal Trade Commission, or any other department, bureau or independent establishment of the Government of the United States, nor to any Federal reserve bank, Federal land bank, or Federal reserve agent, nor to the Federal Advisory Council, nor to any corporation organized under the laws of the United States,

ncr to any bank, banking association, trust company, corporation, association, firm partnership, or person actually engaged in business under such name or title prior to the passage of this Act.

SEC. 3. That no bank, banking association, or trust company which is not a member of the Federal reserve system shall advertise or represent in any way that it is a member of such system or publish or display any sign, symbol, or advertisement reasonably calculated to convey the impression that it is a member of such system.

SEC. 4. That any bank, banking association, trust company, corporation, association, firm or partnership violating any of the provisions of this Act shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding \$1,000. Any person violating any of the provisions of this Act, or any officer of any bank, banking association, trust company, corporation or association, or member of any firm or partnership violating any of the provisions of this Act who participates in, or knowingly acquiesces in, such violation shall be guilty of a misdemeanor and shall be subject to a fine of not exceeding \$1,000 or imprisonment not exceeding one year, or both. Any such illegal use of such word or words, or any combination of such words, or any other violation of any of the provisions of this Act, may be enjoined by the United States district court having jurisdiction, at the instance of any United States district attorney, any Federal land bank, joint-stock land bank, Federal reserve bank, or the Federal Farm Loan Board or the Federal Reserve Board.

SEC. 5. That if any clause, sentence, paragraph, or part of this Act shall for any reason be adjudged by any court of competent jurisdiction to be invalid, such judgment shall not affect, impair or invalidate the remainder of this Act, but shall be confined in its operation to the clause, sentence, paragraph, or part thereof directly involved in the controversy in which such judgment shall have been rendered.