

FEDERAL RESERVE BOARD

WASHINGTON

X-4690

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

October 12, 1926.

SUBJECT: TOPIC FOR GOVERNORS' CONFERENCE.

Dear Sir:

The Board has voted to place upon the program for the next conference of Governors the question of the authority of a Federal reserve bank to receive deposits of securities for safekeeping from Farm Loan Registrars, from Federal Land Banks and from Federal Intermediate Credit Banks. This question is discussed in a memorandum prepared in the office of the Board's Counsel, a copy of which is enclosed herewith for your information.

Very truly yours,

• Walter L. Eddy,
Secretary.

To Governors of all F.R. Banks.

Enclosure:

X-4690-a

June 4, 1926.

Federal Reserve Board

Mr. Vest - Assistant Counsel.

Authority of Federal reserve banks to receive deposits of securities from Federal land banks for safekeeping.

The attached letter from the Cashier of the Federal Reserve Bank of _____ raises the question whether Federal reserve banks are authorized to accept securities for safekeeping from Farm Loan Registrars, from Federal land banks and from Federal intermediate credit banks.

After a careful consideration of this question, I am of the opinion that Federal reserve banks are authorized to receive deposits of securities for safekeeping from Federal intermediate credit banks, but are without authority to receive such deposits from Federal land banks or from Farm Loan Registrars.

With reference to the authority of Federal reserve banks to receive deposits of securities from Federal intermediate credit banks the following provision of law found in Section 406 of the Agricultural Credits Act of 1923, is pertinent:

"Federal reserve banks are hereby authorized to act as depositories for and fiscal agents of any national agricultural credit corporation or Federal intermediate credit bank."

In my opinion, this provision of law is sufficiently broad to include authority to Federal reserve banks to accept deposits of funds or securities from Federal intermediate credit banks. In fact, the Board has previously held, under a statute containing substantially the same provision with reference to the War Finance Corporation as the above statute has with reference to Intermediate credit banks, that Federal reserve banks may hold securities for safekeeping for the account of the War Finance Corporation.

The question whether the reserve banks may receive deposits of securities from Federal land banks or from Farm Loan Registrars is more involved. There is no express authority given in either the Federal Reserve Act or the Farm Loan Act for Federal reserve banks to receive deposits of funds or securities from Federal land banks or from Farm Loan Registrars. This in itself makes the receipt of such deposits beyond the powers of Federal reserve banks. In addition, however, there is a provision of the Farm Loan Act which seems by implication to deny the existence of a right in Federal land banks to make deposits in Federal reserve banks. This is found in Section 13 of the Farm Loan Act and authorizes a Federal land bank "to deposit its securities, and its current funds subject to check, with any member bank of the Federal Reserve System." It is reasonable to assume from this provision of law

and from the absence of any provision authorizing deposits in Federal reserve banks, that it was not intended that Federal land banks should make deposits in Federal reserve banks.

Section 19 of the Farm Loan Act provides that mortgages and bonds held by a Farm Loan Registrar as collateral security for farm loan bonds shall be deposited "in such deposit vault or bank as the Federal Farm Loan Board shall approve, subject to the control of said Registrar and in his name as trustee * * *." The words "in any bank" would seem to include a Federal reserve bank, and there appears to be no reason why a Federal reserve bank, approved by the Farm Loan Board, might not be used as such a depository, so far as the Registrar's authority is concerned. This statute obviously, however, does not in any way enlarge the powers of Federal reserve banks or give them authority to receive deposits from Farm Loan Registrars.

The Federal Reserve Board has approved the right of Federal reserve banks to pay coupons of Farm loan bonds and also to accept deposits of funds from Federal land banks in anticipation of such maturing coupons. The authority to receive deposits for this purpose is found in the first paragraph of Section 13 of the Federal Reserve Act which authorizes Federal reserve banks, solely for the purposes of exchange or collection, to receive from a nonmember bank deposits of current funds, provided such nonmember bank maintains balances sufficient to offset the items in transit held for its account by the Federal reserve bank. This provision of law, however, does not authorize Federal reserve banks generally to receive deposits from Federal land banks for other purposes. The decision of the Federal Reserve Board that coupons of Farm loan Bonds might be paid by Federal reserve banks out of deposits made by Federal land banks was based upon an opinion rendered by Judge Elliott, then General Counsel for the Federal Reserve Board. In another opinion, however, Judge Elliott took the position that the Federal reserve banks have no authority to receive deposits generally from Federal land banks, and also in his opinion with reference to the payment of Farm Loan Bond coupons he stated that Section 13 does not authorize Federal reserve banks to receive deposits "from Farm land banks to the same extent that such deposits are received from member banks or from the United States Government."

Under Section 6 of the Farm Loan Act the Secretary of the Treasury is directed to require all Federal land banks acting as financial agents of the Government or depositaries of public money to furnish satisfactory security by the deposit of bonds or otherwise. No doubt the Secretary of the Treasury, under his authority to require Federal reserve banks to act as fiscal agents of the United States, could require the Reserve Banks to receive deposits of such securities from Federal land banks as are required of them under Section 6 of the Farm Loan Act. In so doing, however, Federal reserve banks would be acting as fiscal agents of the United States and would be receiving and holding securities for the United States rather than for the Federal land banks.

Except in such cases as this, however, it is not believed that a Federal reserve bank could properly be considered to be acting as a fiscal agent or depository of the Government in receiving deposits of securities from Federal land banks. The United States at the present time owns only a small amount of the capital stock of the Federal land banks. Funds and securities of the land banks are not the property of the Government, and a bank receiving a deposit of funds or securities of Federal land banks is not in my opinion thereby rendered a fiscal agent or a depository of the United States.

As stated above, therefore, I am of the opinion that Federal reserve banks are without legal authority to receive a deposit of funds or securities from Farm Loan Registrars, or from Federal land banks except where such deposits are made in anticipation of maturing coupons of Farm loan bonds which are to be paid by the Federal reserve banks. * * * *

Respectfully,

George B. Vest,
Assistant Counsel.