FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6649

July 1, 1930.

SUBJECT: Bill to Amend Federal Reserve Act and National Bank Act.

Dear Sir:

There is enclosed herewith for your information, copy of a memorandum from the Board's Assistant Counsel, summarizing the provisions of S-4723, a bill introduced by Senator Glass to amend various provisions of the National Bank Act and the Federal Reserve Act. As the supply of the printed bill is still limited, only one copy is attached hereto.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

Enclosures.

TO ALL GOVERNORS AND AGENTS.

FEDERAL RESERVE
BOARD

OFFICE CORRESPONDENCE Date June 23, 1930

To Federal Reserve Board

From Mr. Wingfield-Assistant Counsel.

Subject: Summary of Provisions of the Bill S-4723, introduced by Senator Glass.

On June 17, 1930, Senator Carter Glass introduced a bill, S.4723, to amend the provisions of the National Bank Act and the Federal Reserve Act in a number of respects. When he introduced this bill Senator Glass stated on the floor of the Senate that it is merely a tentative measure to which he hopes to direct the inquiry into the banking system authorized by the Senate. For the information of the Board, however, I will briefly summarize below the most important changes which Senator Glass' bill would make in the present law.

(1) The first paragraph of the bill, S. 4723, states that the title of the bill is the "Banking Act of 1930."

(2) Section 2 of the bill, S. 4723, would amend the 7th paragraph of Section 5136 of the Revised Statutes which has to do with the powers which a national bank may exercise. In addition to the specific powers of national banks now contained in the law, this bill provides that national banks may generally engage in all forms of business that commercial banks of the State in which the national bank is situated are permitted to transact by the laws of the State, except in so far as national banks are expressly forbidden to undertake such business by the National Bank Act, the Federal Reserve Act, or other laws of the United States.

Under the present provisions of Section 5136 of the Revised Statutes, national banks are authorized to buy and sell investment securities. Section 2 of the bill, S. 4723, would also amend Section 5136 so as to limit this power of national banks to only the buying and selling of investment securities solely upon order and for account of customers, and in no case for its own account, except as specified in Section 24 of the Federal Reserve Act.

(3) Section 5144 of the Revised Statutes now provides that each shareholder of a national bank shall be entitled to one vote on each share of stock held by him. Section 3 of the bill S. 4723 would amend Section 5144 so as to restrict the right of a shareholder to vote only shares of stock actually owned by him as a result of bona fide purchase, gift or inheritance, and the shareholder who becomes such through nominal transfer, or ownership on behalf of another, may not vote stock so acquired. This section of the bill would further amend Section 5144 so as to provide that no corporation, association or partnership and no officer, employee or director of any corporation, association or partnership which is the owner of stock in any national bank shall vote either the stock owned by him individually or the stock owned by the corporation. The present provision of Section 5144 authorizing shareholders to vote by proxy is retained in the bill S. 4723.

(4) Section 4 of the bill S. 4723, would amend paragraph (c) of Section 5155 of the Revised Statutes so as to authorize a national bank, after the date of the approval of this bill, to establish and operate new branches within the limits of the State in which the national bank is situated rather than merely in the city, town or village in which such national bank is located. The proposed amendment retains the present provision of the law that new branches may only be established and operated if such establishment and operation are permitted to State banks by the law of the State in which the national bank is located.

(5) Under the provisions of Section 5197 as it now reads, a national bank is authorized to charge interest at the rate allowed by the laws of the State, territory or district where the bank is located and when no rate is so fixed by State law a national bank may charge a rate not exceeding 7 per centum. Section 5 of the bill S. 4723 would amend these provisions so as to authorize a national bank to charge the rate allowed by State law or a rate one per centum in excess of the discount rate of the Federal reserve bank in the Federal reserve district where the national bank is located, whichever may be greater, and where no rate is fixed by State law a national bank would be authorized to charge a rate not exceeding 7 per centum or one per centum in excess of the discount rate of the Federal reserve bank in the Federal reserve district where the national bank is located, whichever may be greater.

(6) Section 5200 of the Revised Statutes limits loans by a national bank to any one person to 10 per cent of the capital and surplus of the national bank. This section, however, contains a number of exceptions to the 10 per cent limitation. Section 6 of the bill S. 4723 would amend Section 5200 by adding a provision that no obligation of a broker or of any finance company, securities company, investment trust or other similar institution, or of any affiliate, shall be entitled to the benefits of any of the exceptions contained in Section 5200, but all such obligations shall be subject to the 10 per cent limitation. This section would further amend Section 5200 so as to provide that the total obligations of an affiliate shall not exceed the 10 per cent limitation or the amount of the capital stock of the affiliate actually paid in and unimpaired, whichever may be the smaller. It is further provided that an affiliate shall include a finance company, securities company, investment trust, or any other corporation the control of which is held directly or indirectly through stock ownership, or in any other manner by a national bank or by the shareholders thereof who own or control a majority of the stock of the national bank.

(7) Section 7 of the bill S. 4723 would amend Section 5211 of the Revised Statutes by adding a new paragraph which would require each affiliate of a national bank to furnish to the Comptroller of the Currency not less than three reports each year, setting out in detail the condition of the affiliate. The president of the national bank is required to satisfy himself as to the correctness of each such report transmitted to the Comptroller. This amendment contains detailed requirements with reference to the filing of such reports and the form of such reports and authorizes the Comptroller of the Currency to call for special reports whenever in his judgment it is necessary. An affiliate which fails to furnish the

reports required of it shall be subject to a penalty of $100 for each day during which such failure continues.

(8) Section 8 of the bill S. 4723 would amend the first paragraph of Section 7 of the Federal Reserve Act so as to provide that after the payment of a 6 per cent dividend to member banks, one-fourth of the remainder of the net earnings of a Federal reserve bank shall be paid to the United States as a franchise tax, one-fourth to the surplus fund of the Federal reserve bank (but after the surplus equals 100 per cent of the subscribed capital the remainder goes to the United States as a franchise tax) and the remaining 50 per cent of the net earnings of a Federal reserve bank shall be paid to the member bank stockholders.

(9) Section 9 of the bill S. 4723 would amend Section 9 of the Federal Reserve Act by adding a new paragraph which would require each affiliate of a member State bank to furnish to the Federal Reserve Board not less than three reports each year, containing detailed information with reference to the condition of the affiliate. This amendment contains detailed requirements with reference to the filing of such reports and the form thereof and requires the president of the member bank to satisfy himself as to the correctness of each such report transmitted to the Federal Reserve Board. Any affiliate which fails to make any report required shall be subject to a penalty of $100 for each day during which such failure continues. This section of the bill contains substantially the same definition of an affiliate as was contained in Section 6 of the bill as above noted.

(10) Section 10(a) of the bill S. 4723 would amend the first paragraph of Section 10 of the Federal Reserve Act so as to eliminate the Secretary of the Treasury from membership on the Federal Reserve Board and to provide for a membership of only seven members including six members appointed by the President of the United States and the Comptroller of the Currency as an ex officio member. Section 10(b) of this bill would amend the second paragraph of Section 10 of the Federal Reserve Act so as to eliminate the Secretary of the Treasury from the provision which now renders the Secretary or Comptroller of the Currency ineligible during the time he is in office and for two years thereafter to hold any office, position or employment in any member bank. Section 10(c) would amend the fourth paragraph of Section 10 of the Federal Reserve Act to eliminate the Secretary of the Treasury as an ex officio chairman of the Federal Reserve Board and to provide that the oaths of office of members of the Federal Reserve Board shall be filed with the Secretary of the Federal Reserve Board rather than be certified to the Secretary of the Treasury as is now required.

(11) Section 11 of the bill S. 4723 would amend the seventh paragraph of Section 13 of the Federal Reserve Act so as to provide that during the life or continuance of advances to a member bank on the 15-day promissory collateral notes of the member bank such member bank shall not increase or enlarge the total loans already made by it either upon collateral security to any borrower or to the members of any organized stock exchange, investment

house, or dealer in securities, upon any obligation, note, or bill secured or unsecured, except for the purpose of purchasing and carrying obligations of the United States.

(12) Section 12, which is the last section of the bill S. 4723, would amend Section 24 of the Federal Reserve Act so as to require a national bank to invest its time and savings deposits in the amount of real estate loans authorized under the provisions of Section 24 of the Federal Reserve Act or in property and securities of the kinds and amounts required by law of savings banks in the State where the national bank is situated. In case no such State savings bank law exists the savings and time deposits of a national bank shall be invested in property and securities specified by the Comptroller of the Currency. The reserve of 3% of time deposits required by the Federal Reserve Act shall count as a corresponding part of such investments. This section of the bill further provides that in case a national bank becomes insolvent, all the property acquired under this section shall be applied by the receiver thereof in the first place ratably and proportionately to the payment in full of the time and savings deposits of the national bank.

A copy of the bill S. 4723 is attached hereto for the Board's information.

Respectfully,

(S) B. M. Wingfield
Assistant Counsel.

Copy of bill attached.

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