

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7097

February 18, 1932.

SUBJECT: Necessity for the approval of the Federal Reserve Board in purchasing municipal warrants.

Dear Sir:

For your information there is enclosed herewith a copy of a letter recently received by the Federal Reserve Board from one of the Federal reserve banks, together with a copy of the Board's reply thereto, with regard to the question whether it is necessary that a Federal reserve bank obtain the special approval of the Federal Reserve Board before purchasing from a member bank municipal warrants, which bear the indorsement of such member bank, in accordance with the provisions of Section V (d) of the Board's Regulation E.

Very truly yours,

Chester Morrill,
Secretary.

Enclosures.

TO GOVERNORS OF ALL F. R. BANKS.

COPY

X-7097-a

February 18, 1932.

Mr. W. B. Geery, Governor,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Governor Geery:

Reference is made to your letter of January 19, 1932, in which you inquire whether it is necessary to obtain the special approval of the Federal Reserve Board before purchasing the warrants of municipalities having a population of less than 10,000 inhabitants, when such warrants are purchased from and indorsed by a member bank in accordance with the provisions of Section V (d) of the Board's Regulation E.

While the language of the regulation is not clear, it was the intention that the purchase from a member bank of warrants which bear the indorsement of such bank and comply in other respects with the provisions of Section V (d) should be exempt from the requirements contained in Sections V(a), V(c) and VI, of the regulation. You are advised, therefore, that warrants may be purchased by a Federal reserve bank in accordance with the provisions of Section V (d) without obtaining the special approval of the Federal Reserve Board, even though (1) such warrants are issued by a municipality having a population of 10,000 inhabitants or less, (2) the amount of warrants of a single municipality so purchased exceeds 25 per cent of the total

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amount of warrants issued and sold by such municipality or (3) the amount invested in warrants of a single municipality exceeds the percentages prescribed in Section V(c).

Your attention is invited to the fact, however, that, under the provisions of Section 5136 of the Revised Statutes, a national bank is permitted to sell investment securities only "without recourse" and, therefore, may not sell warrants of municipalities with its indorsement.

Very truly yours,

Chester Morrill,
Secretary.

COPY

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FEDERAL RESERVE BANK
OF MINNEAPOLIS

January 19, 1932

Federal Reserve Board,
Washington, D. C.

Gentlemen:

We are at the present time being examined by your examiners, and one question has come up which has never arisen before because it has so happened that we had never been carrying warrants at the time the Examiners were here.

Our Northern Michigan and Northern Wisconsin banks use us every year through the months of November, December and January for the purpose of carrying borrowings of their cities, counties and school districts in anticipation of the tax payments which are due January 10th in Michigan and February 28 in Wisconsin. Section V(d) of Regulation E provides that any Federal reserve bank may purchase from any of its member banks warrants of any municipality, indorsed by such member bank, with waiver of demand, notice and protest if such warrants comply with Sections III and V (b) of these regulations. Section VI provides that warrants of a municipality of 10,000 population or less shall be purchased only with the special approval of the Federal Reserve Board.

We have considered V(d) as waiving the requirement regarding the special approval of the Federal Reserve Board. The Examiners question this, and I would appreciate it if you will make a ruling on this for our benefit.

Yours very truly,

(S) W. B. Geery
Governor