

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7107

March 4, 1932.

SUBJECT: Right of National Banks to sell Municipal
Warrants with their Indorsement.

Dear Sir:

There are inclosed for your information copies of letters on the above subject addressed to the Board by Governor Young on February 20, 1932, to the Comptroller of the Currency by the Board on February 29, 1932 and to the Board by the Comptroller of the Currency on March 1, 1932.

The position taken in the last paragraph of the Board's letter of February 18, 1932, to Governor Geery (X-7097-a), was based upon informal advice from the office of the Comptroller of the Currency and should be considered to be modified by the advice contained in the Comptroller's letter of March 1, 1932, in so far as the two are in conflict.

Very truly yours,

Chester Morrill,
Secretary.

Inclosures.

TO GOVERNORS OF ALL F. R. BANKS EXCEPT BOSTON.

COPY
FEDERAL RESERVE BANK
OF BOSTON

February 20, 1932.

Mr. Chester Morrill
Secretary
Federal Reserve Board
Washington, D. C.

Dear Mr. Morrill:-

This will acknowledge receipt of your letters of February 18, 1932, Nos. X-7097 and X-7097-a, in reference to Federal Reserve Banks purchasing municipal warrants. The last paragraph of your letter to Governor Geery, No. X-7097-a, reads as follows:-

"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".

Are we to assume from this that the Comptroller of the Currency and the Federal Reserve Board are classifying a six months note of a municipality issued in anticipation of the collection of taxes and conforming to all the regulations of the Federal Reserve Board in reference to such a note to be an investment security? It appears to us that this is a self-liquidating loan and should not by any possible line of reasoning be classified as an investment security. In any event, we have always considered such an obligation a loan and not an investment security and we are prompted to inquire if the paragraph quoted is in accord with the regulations and instructions of the Comptroller.

Very truly yours,

(Signed) R. A. Young

R. A. Young
Governor

COPY

February 29, 1932.

Honorable J. W. Pole,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Pole :

The Federal Reserve Board recently addressed a letter to one of the Federal reserve banks which contained a statement that a national bank is permitted to sell investment securities only "without recourse" and, therefore, may not sell warrants of municipalities with its indorsement. A copy of this letter was sent by the Board to the Governors of all Federal reserve banks, and the Board has now received a letter from Governor Young of the Federal Reserve Bank of Boston inquiring whether this statement is in accord with the regulations and instructions of the Comptroller of the Currency.

In order that the Board may make a proper reply to Governor Young's inquiry, it will be appreciated if you will advise as to the position of your office on this point. Copies of the letters referred to are inclosed herewith for your information.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosures.

COPY

TREASURY DEPARTMENT

WASHINGTON

March 1, 1932.

Federal Reserve Board,
Washington, D. C.

Gentlemen:

I have a letter from your Secretary under date of February 29, enclosing copies of a letter addressed to the Governors of the Federal Reserve Banks and a letter from Governor Young with respect thereto.

The information desired is the position of this office with respect to whether a national bank is permitted to sell warrants of municipalities with its endorsements. This office holds that the discounting or negotiating of promissory notes, drafts, bills of exchange and other evidences of debt by a national bank must either involve the granting of a loan or the purchase of an investment security. The circumstances surrounding each transaction must determine whether it results in the making of a loan subject to all the provisions of the law with respect to loans or the making of an investment which must conform to the requirements of Section 5136, U.S.R.S., as amended, and to the regulations of the Comptroller in connection therewith.

If, therefore, a bank holds an obligation of a municipality representing an advance of funds made directly to the municipality, the transaction would appear to be a loan and not an investment, and would not be subject to the provisions of Section 5136, U.S.R.S., which requires purchase and sale "without recourse".

It is also held that the intent of the law places municipal loans on the same basis as other government loans. Governments are not held to be corporations within the meaning of Section 5200, U.S. R.S., and in consequence loans thereto are not subject to the limit prescribed by this section.

Very truly yours,

(Signed) J. W. Pole

J. W. POLE,
Comptroller.