

X-7389

CONFIDENTIAL - Tentative Draft of March 29, 1933.

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H. R. 3757 providing for direct loans by Federal reserve banks to nonmember State banks and trust companies which was quoted in our Trans. 1722 of March 24, and was signed by President. on same date, has been given preliminary study here and requirements of bill together with tentative interpretations and suggestions with regard to procedure thereunder are outlined below. (1) Loans may be granted during existing emergency in banking or until by proclamation of President applicable provisions of act shall be declared no longer operative, but in no event after March 24, 1934. (2) Application may be made only to Federal reserve bank of district in which non-member State bank or trust company is located. (3) Loans may be made in discretion of Federal reserve bank, after inspection and approval of collateral and thorough examination of applying bank or trust company. (4) Loans granted are to be made under terms provided in section 10(b) of Federal reserve act as amended by section 402 of act of March 9, 1933, except that loans may be made upon eligible as well as ineligible security. (5) Each application for loan shall be accompanied by written approval of State Banking Department or Commission of State from which such bank or trust company received

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its charter and statement from such banking department or commission that in its judgment such bank or trust company is in sound condition.

(6) Notes representing such loans (whether secured by eligible or by ineligible collateral) will be eligible as security for circulating notes issued under sixth paragraph of section 18 of Federal Reserve Act as amended by section 401 of act of March 9, 1933, to same extent as paper acquired under Federal reserve act, but will not be eligible as security for Federal reserve notes. (7) While such bank or trust company is indebted in any way to any Federal reserve bank it must comply in all respects with provisions of Federal reserve act and Board's regulations applicable to member State banks, except that in lieu of subscribing to stock of Federal reserve bank it must maintain the reserve balance required by section 19 of Federal reserve act. In view of clause four above following conditions should be observed: (a) Advances may be made only in exceptional and exigent circumstances; (b) such advances may be made on demand or time note of applicant institution, but Board feels that maturity should not exceed 90 days; (c) such advances must be secured to satisfaction of Federal reserve bank, and eligible collateral held by applicant bank should be exhausted before utilizing ineligible assets; (d) each advance should bear interest at same rate as that currently applicable to advances to member banks under provisions of section 10(b); (e) in making such advances due regard should be had to claims and demands of member banks as provided in section 4 of Federal reserve act and Board feels that such advances should be made only when applicants have shown to satisfaction of Federal reserve bank that they are unable to secure adequate credit accommodations from other banking

institutions.

In view of clause seven above, borrowing institution, while indebted to Federal reserve bank, (f) must maintain actual realized balance at Federal reserve bank in amount equal to reserve which would be required of it under section 19 and Regulation D if it were a member bank and will be subject to penalties for deficiencies in reserves; (g) must remit at par for checks drawn on it and presented for payment by Federal reserve bank as required of member banks by Federal reserve act and Board's regulations; (h) may be examined at any time by Federal reserve bank or Federal Reserve Board and must pay assessments for expenses thereof in same manner and to same extent as member banks; (i) must make reports of condition and of payment of dividends as required of member State banks and will be subject to same penalties for failure to do so; (j) such bank must comply with capital requirements regarding eligibility of State banks for membership and must conform to provisions of law which prohibit national banks from lending on or purchasing their own stock, which relate to withdrawal or impairment of capital stock and which relate to payment of unearned dividends.

The interpretations and suggestions outlined herein are not intended to be final and if in any actual case you are doubtful as to proper determination of any question upon which you desire Board's ruling it will give prompt consideration to such question when submitted with your recommendation as to action which should be taken accompanied by your counsel's opinion on matters of law involved.

Suggest that your counsel prepare forms of application, promissory notes, resolutions of directors and other papers along lines of those used in connection with advances to member banks under section 10(b) of Federal Reserve Act with such changes and additions as in opinion of your counsel will adequately protect interests of Federal reserve bank including provision in application that at option of Federal reserve bank any failure to comply with applicable provisions of law or regulations of Federal Reserve Board or of agreement with Federal reserve bank shall constitute default upon any or all advances made by Federal reserve bank to applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. In this connection it is suggested that your counsel consider provisions included in application form inclosed in our letter of July 26, 1932, (X-7213).

Suggest also that your counsel and officers ^{will} who/handle applications of nonmember banks read carefully debates in Congressional Record on this act and especially Senate debates on March 22 and 23 which indicate clearly that Federal reserve banks are not expected to make loans to insolvent banks nor to give nonmember banks more favorable treatment than member banks.

Morrill.