

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7413

April 17, 1933.

SUBJECT: Application for membership
by personal loan banks.

Dear Sir:

There is inclosed a copy of a letter the Board has addressed to one of the Federal reserve agents in reply to an inquiry with regard to whether a personal loan bank would be admitted to membership in the Federal Reserve System. The copy of the Board's reply in this case is being furnished for your information and guidance in connection with any similar cases which come to you for consideration.

Yours very truly,

Chester Morrill,
Secretary.

Inclosure.

TO ALL FEDERAL RESERVE AGENTS EXCEPT CHICAGO.

Copy

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April 15, 1933.

Mr. Eugene M. Stevens,
Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

Receipt is acknowledged of your letter of March 22, 1933, in which you requested advice as to whether the _____ Bank would be admitted to membership in the Federal Reserve System. It is understood that the institution is engaged in the business of making personal loans repayable in installments and does not do any commercial banking business.

The provisions of Section 9 of the Federal Reserve Act require the Board, when acting on an application by a State bank for membership in the Federal Reserve System to consider not only the financial condition of the institution and the character of its management, which in the present case are understood to be satisfactory, but also whether or not the corporate powers exercised are consistent with the purposes of the Federal Reserve Act.

Under the Federal Reserve Act, the Federal reserve banks may discount paper which is issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which are used for such purposes, and it is evident from the provisions of the Act that it was the intention of Congress that paper eligible for re-discount should be self-liquidating in character and of short matur-

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Mr. Eugene M. Stevens -

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ity. In other words, it was contemplated that the paper should arise out of commercial or agricultural transactions which ordinarily will be consummated within a comparatively short period of time and out of which will be derived funds to pay the paper at maturity. The paper of personal loan banks, of course, is not of this character, and, it seems clear that the Act did not contemplate the admission to membership of institutions of this class. Accordingly, after careful consideration of all the facts involved, the Board does not feel that it can approve the application of the _____ Bank and requests that you so advise it.

Very truly yours,

Chester Morrill,
Secretary.