

CONFIDENTIAL - Tentative Draft of March 25, 1933..

March 25, 1933.

Curtiss - Young - Boston
Case - Harrison - New York
Austin - Norris - Philadelphia
Williams - Fancher - Cleveland
Hoxton - Seay - Richmond
Newton - Black - Atlanta

Stevens - McDougal - Chicago
Wood - Martin - St. Louis
Bailey - Geery - Minneapolis
McClure - Hamilton - Kansas City
Walsh - McKinney - Dallas
Newton - Calkins - San Francisco

H. R. 3757 providing for direct loans by Federal reserve banks to non-member 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 following tentative interpretations and procedure are suggested: (1) A nonmember bank may apply for loans only to Federal reserve bank of district in which it is located. (2) Suggest that your Counsel prepare forms of applications, promissory notes, resolutions of directors and other papers along lines of those used in connection with loans to individuals, partnerships and corporations; but application forms should also include provision that any failure to comply with any applicable provision of law or regulations of the Federal Reserve Board or of agreement with Federal reserve bank shall constitute a default upon all loans made by Federal reserve bank to applicant and applicant's entire indebtedness to Federal reserve bank shall thereupon become due and payable. (3) Each application must be accompanied by written approval of State authorities having supervision over applicant bank and statement from such authorities that it is in sound condition. (4) Before making first advance to any nonmember bank, Federal reserve bank should make thorough examination of applying bank, after making necessary arrangement to insure payment of expenses therefor. (5) If examination discloses that applicant bank is

- 2 -

solvent, that it has capital required of member banks, that it has no branches unlawful for member banks, and that its condition is otherwise satisfactory, Federal reserve bank should inspect collateral and advise applicant bank whether or not loan will be granted. (6) Before being permitted to withdraw proceeds of advance, applicant bank should be required to establish actual realized balance with Federal reserve bank in amount equal to reserve balance which would be required of it under Section 19 and Regulation D if it were a member bank. (7) Advances to nonmember banks may be made on the same terms and conditions, and on the same collateral as fifteen day advances to member banks under eighth paragraph Section 13. (8) After nonmember bank has exhausted all collateral eligible for advances under Section 13, it may obtain advances on ineligible assets on same terms and conditions as member banks obtain advances under provisions section 10(b), Federal Reserve Act, as amended March 9, 1933. (9) Rates on all advances of either class should be same as rates on similar advances to member banks. (10) Notes representing advances to nonmember banks (whether on eligible or ineligible collateral) may be used as security for issuance of Federal reserve bank notes under Section 401 Act March 9, 1933, to same extent as paper acquired under Federal Reserve Act, but may not be used as security for Federal reserve notes. (11) Making of advances to nonmember banks is discretionary with Federal reserve bank and in exercising its discretion Federal reserve bank should consider whether proceeds of advance will be

used for purpose of paying off existing indebtedness to other banking institutions and should also have due regard to claims and demands of member banks, as required by Section 4 Federal Reserve Act. (12) In making advances, Federal reserve banks should not make any commitment to renew or extend, or to grant further or additional advances. (13) Federal reserve bank should advise each nonmember bank applying for advances that, while it is indebted in any way to Federal reserve bank, it must comply with requirements of Federal Reserve Act and Board's regulations applicable to member State banks, including the following:

(a) It must maintain reserve balance required by section 19 Federal Reserve Act and Board's Regulation D and will be subject to penalties for deficiencies in reserves; (b) it 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; (c) it will be subject to examination at any time by Federal reserve bank or Federal Reserve Board and will be subject to assessments for expenses of such examinations to same extent as member banks; (d) it must make same 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; (e) before becoming indebted to Federal reserve bank, such bank must relinquish any branch or branches established after February 25, 1927, beyond limits city, town or village in which parent bank is situated and must not establish any such branches while indebted to

such Federal reserve bank; (f) 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. (14) Suggest that your counsel and officers who are to handle applications of nonmember banks read carefully debates in Congressional Record on this Act and especially Senate debates of 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.

(Governors and Agents)