

INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks.)

December 1, 1933.

Mr. _____,
_____,
_____,
_____, _____.

Dear Sir:

Receipt is acknowledged of your letter of September 16, 1933, addressed to the Governor of the Federal Reserve Board, in which you request to be advised of any ruling of the Federal Reserve Board in respect to the meaning of the words "bona fide owner in his own right", as used in Section 31 of the Banking Act of 1933. The Board has not issued any such ruling, and it does not feel that it should undertake at this time to define in detail the words to which you have reference.

It appears from your letter, however, that one of your subscribers desires to know whether the provisions of Section 31 would render unlawful the pledge by a director of a member bank of his qualifying shares as collateral security for a loan. It is the opinion of the Board that, after one year from June 16, 1933, the effective date of Section 31, a director of a State member bank must own the required qualifying shares in his own right, and that such shares may not lawfully be hypothecated or pledged as security for a loan or debt after that date. This conclusion finds support in the fact that Section 5146 of the Revised Statutes, which has been amended in part by section 31, provides that every director of a national bank must "own in his own right" qualifying shares in stated amounts, and that Section

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5147 of the Revised Statutes, which is in full force and effect, requires each director of a national bank to take an oath that he is the "owner in good faith, and in his own right, of a number of shares of stock required by this title, subscribed by him, or standing in his name on the books of the association, and that the same is not hypothecated, or in any way pledged, as security for any loan or debt". The underscored portion of Section 5147 indicates that Congress considered the words "own in his own right", as used in Section 5146, to mean that qualifying shares of a director of a national bank should be unpledged and unhypothecated, and there does not appear to be any reason why the words "owner in his own right", as used in Section 31 of the Banking Act of 1933, should be construed differently.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.