

X-7875

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

April 27, 1934.

Hon. J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Sir:

This refers to your memorandum of October 25, 1933, inclosing a letter dated October 6, 1933, from _____ National Bank of _____.

The letter states that the bank holds a note in the amount of \$65,000 of the _____ Company of _____, which is not an affiliate of the bank; and that such note bears the indorsement of eight names, among them being that of _____, a holding company affiliate of the bank. You ask whether, in the opinion of the Board, the indorsement of the note by _____ renders the transaction a "loan or extension of credit" to an affiliate of the bank within the meaning of Section 23A of the Federal Reserve Act so as to make it necessary for the bank to require collateral for the loan represented by such note.

While it is not entirely clear from the letter, it is understood that the note of the _____ Company was delivered directly to the bank, and that the name of _____ appears thereon as that of an accommodation indorser only. Assuming this to be the case and that no part of the proceeds of the loan were

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used for the benefit of, or transferred to, _____, it is the opinion of the Board that the member bank in making the loan upon the note in question did not make a "loan or extension of credit" to its affiliate within the meaning of Section 23A of the Federal Reserve Act and that, therefore, the fact that this firm is an accommodation indorser upon the note does not make it necessary under the law that the loan represented by such note be secured by collateral.

However, aside from the applicability of the terms of Section 23A, the desirability of a member bank's making a loan upon which it is deemed necessary to obtain the accommodation indorsement of an affiliate, in some circumstances at least, would appear to be questionable. In many cases, it may be that the identity of interests between the affiliate and the bank is such that an accommodation indorsement of the affiliate would not as a practical matter afford the bank any additional protection or security; and, where there is such an identity of interest or other reason why such an indorsement of an affiliate furnishes no additional protection, the Federal Reserve Board feels that member banks should be discouraged in so far as practicable from making loans without collateral security upon which the indorsement of such affiliate is required.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.