

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in morning papers
of July 7, 1934.

SECURITIES COMPANY WITHIN PROVISIONS OF SECTIONS
20 and 32 of BANKING ACT OF 1933.

The Banking Act of 1933 was enacted on June 16, 1933, and
Section 20 of that Act became effective June 16, 1934, and reads in
part as follows:

"Sec. 20. After one year from the date of the
enactment of this Act, no member bank shall be
affiliated in any manner described in section 2(b)
hereof with any corporation, association, business
trust, or other similar organization engaged prin-
cipally in the issue, flotation, underwriting,
public sale, or distribution at wholesale or retail
or through syndicate participation of stocks, bonds,
debentures, notes, or other securities. * * * * .

The Federal Reserve Board recently considered the question
whether a trust company which was affiliated with a member bank with-
in the meaning of the provisions of section 2 (b) of the Banking Act
of 1933 and which was engaged in the business of issuing and selling
mortgage bonds was a corporation carrying on the kind of business de-
scribed in section 20 of the Banking Act of 1933. The business of
the company involved was as follows:

The trust company made loans secured by first mortgages on
improved real estate and the obligations secured by such mortgages were
assigned to one of two corporate trustees, in accordance with the terms
of a trust agreement, to secure the payment of bonds of the trust com-
pany which were issued and sold to the public by the trust company. It

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appeared that these bonds were issued serially in denominations of \$100, \$500, or \$1000 each; that the bonds bore interest payable semi-annually; that at the time of the Board's consideration of the matter the rate of interest on such bonds then being issued was $4\frac{1}{2}\%$; that the bonds were negotiable in form; that the bonds were the direct obligations of the trust company; that in addition to obligations secured by mortgages certain securities of specified classes might be deposited with the trustees to secure the payment of such bonds; that it was the practice of the trust company to authorize the issue of such bonds in series of \$1,000,000 or less, although the whole amount of each series might not in every case be sold; and that it was the practice of the trust company to issue the series of bonds with maturities of either five or ten years. It also appeared that the trust company received deposits to some extent and did a considerable amount of trust business. However, it appeared that the principal business of the trust company was the making of mortgage loans and the issuance and sale of its mortgage bonds.

After careful consideration of this matter the Board ruled, in view of all the facts involved, that the trust company was engaged principally in the issue and sale of securities within the meaning of Section 20 of the Banking Act of 1933, and that, in view of the affiliation of the trust company with a member bank, appropriate action should be taken to comply with the requirements of Section 20 of the Banking Act of 1933.

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Section 32 of the Banking Act of 1933 reads in part as follows:

"Sec. 32. From and after January 1, 1934, no officer or director of any member bank shall be an officer, director, or manager of any corporation, partnership, or unincorporated association engaged primarily in the business of purchasing, selling, or negotiating securities * * * unless in any such case there is a permit therefor issued by the Federal Reserve Board; and the Board is authorized to issue such permit if in its judgment it is not incompatible with the public interest, and to revoke any such permit whenever it finds after reasonable notice and opportunity to be heard, that the public interest requires such revocation."

In the case discussed above it also appeared that directors of the trust company were also directors of a member bank. In view of the facts described above, the Board also ruled that the trust company was engaged primarily in the business of selling or negotiating securities within the meaning of Section 32 of the Banking Act of 1933.