

X-8078

October 17, 1934.

Dear Sir:

There is attached, for your information, a copy of a letter addressed to the Federal Reserve Agent at the Federal Reserve Bank of Cleveland under date of October 15, 1934, with regard to the question whether capital notes and debentures sold to the Reconstruction Finance Corporation by State member banks may be considered as capital or capital stock for the purpose of determining limitations under certain sections of the Federal Reserve Act and the Agricultural Credits Act of 1923.

Very truly yours,



L. F. Bothea,  
Assistant Secretary.

Inclosure.

TO ALL F. R. AGENTS EXCEPT CLEVELAND.

X-8078-a

C O P Y

October 15, 1934.

Mr. L. B. Williams,  
Federal Reserve Agent,  
Federal Reserve Bank of Cleveland,  
Cleveland, Ohio.

Dear Mr. Williams:

This refers to Mr. Anderson's telegram dated July 21, 1934, which reads as follows:

"Has the Board ruled whether capital debentures sold to R F C or otherwise may be considered capital for the purpose of establishing loan limits."

Although the above telegram is not specific, it is assumed that Mr. Anderson desires a ruling upon the question whether capital notes and debentures sold to the Reconstruction Finance Corporation by State member banks may be considered as capital or capital stock for the purpose of determining limitations under the following sections of the Federal Reserve Act: section 9, which provides a limitation upon purchasing, selling, underwriting, and holding, by member banks, of investment securities; sections 9 and 13, which provide limitations upon the amount of paper of any one borrower which a Federal reserve bank may rediscount for a member bank; section 13, which provides a limitation upon the amount of drafts or bills of any one borrower which a member bank may accept, upon the total amount of bills which a member bank may accept, and upon the amount of drafts or bills which may be accepted by a member bank for the purpose of providing dollar exchange; section 11(m), which provides a limitation

upon the amount which a member bank may loan upon the security of stock or bond collateral; section 12B(c), which provides for the amount of stock of the Federal Deposit Insurance Corporation for which a member bank organized after June 16, 1934, may apply during the first twelve months after its organization; section 19, which provides a limitation upon the sum which a member bank shall keep on deposit with a nonmember State bank; section 23A, which provides a limitation upon the amount which a member bank may invest in or loan upon stocks, bonds, debentures, or other such obligations of an affiliate; and section 24A, which provides a limitation upon the amount which a member bank may invest in bank premises or the stock, bonds, debentures, or other such obligations of a corporation holding the bank's premises, and upon the amount which a member bank may loan upon the stock of such a corporation. A similar question arises under section 210 of the Agricultural Credits Act of 1923, which provides a limitation upon the amount of stock of National Agricultural Credit Corporations in which a member bank may invest.

In view of the ruling of the Board contained in its telegram to all Federal Reserve Agents, dated November 8, 1933, (Trans. 1905), and in view of the later amendment to section 9 of the Federal Reserve Act, contained in the Act of June 16, 1934, which provides that, for the purposes of membership of any State bank, the terms capital and capital stock shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased

by the Reconstruction Finance Corporation, the Federal Reserve Board is of the opinion that capital notes and debentures legally issued by State member banks and purchased by the Reconstruction Finance Corporation should be considered as capital or capital stock in determining limitations under the above mentioned sections.

However, since the above mentioned amendment to section 9 of the Federal Reserve Act does not refer to capital notes and debentures sold to others than the Reconstruction Finance Corporation, any notes or debentures not sold to the Reconstruction Finance Corporation may not be included in determining the limitations above referred to. Likewise, since the above mentioned amendment to section 9 refers only to capital notes and debentures issued by State member banks, the above opinion is applicable only to State banks. In this connection, however, it is understood that it is not the practice of national banks to issue capital notes or debentures.

You will understand, of course, that the Board's advice in this matter is not intended to refer to limitations fixed by State statutes, as the construction of such statutes is within the jurisdiction of the appropriate State supervisory authorities rather than the jurisdiction of the Board.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
Assistant Secretary.