

INTERPRETATIONBANKING ACT OF 1935

X-9477

(Copies to be sent to all Federal Reserve banks)

January 31, 1936.

Mr. John S. Wood,
Federal Reserve Agent,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

This refers to your letter of December 13, 1935, with inclosure, from which it appears that Mr. _____, who is chairman of the board of directors of _____ Bank, _____, _____, a State member bank, is also a partner with his brother in the firm of _____, each having an equal one-half interest in such firm. You inquire whether, in view of the provisions of section 2 of the Board's Regulation O, a member bank is permitted to extend credit to a partnership in which an executive officer of such bank has a 50 per cent interest therein.

Under the provisions of subsection (g) of section 22 of the Federal Reserve Act, as amended by the Banking Act of 1935, "borrowing by, or loaning to, a partnership in which one or more executive officers of a member bank are partners having either individually or together a majority interest in said partnership shall be considered within the prohibition of this subsection". In the case of an executive officer of a member bank who has exactly a 50 per cent interest in a partnership, such an interest would not amount to a "majority" interest within the meaning of that term as it is generally understood

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and it is, therefore, the view of the Board that the prohibitions contained in section 2 of the Board's Regulation O are not applicable to such a partnership.

Moreover, it is a well settled rule of law that partners are presumed to have equal interests in the firm in the absence of competent evidence of an agreement to the contrary. In view of this legal presumption and the statement that Mr. _____ does not have a majority interest in the partnership, you are authorized to advise the _____ Bank that the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation O are not applicable to the partnership in question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.