INTERPRETATION

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

February 19, 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 January 23, 1936, with inclosures, presenting an inquiry from the Bank of _____, _____, a member bank, as to whether it would be contrary to the provisions of subsections (d) or (g) of section 22 of the Federal Reserve Act for such bank to make a loan to the _____ _____ Company, a _____ corporation, whose president, general manager, and largest stockholder is also chairman of the board of directors of the bank.

Subsection (d) of section 22 has to do with the purchase of securities or other property from a director of a member bank or a firm of which any such director is a member. It does not appear, therefore, that a loan to a corporation in which a director of a member bank is interested as a stockholder or officer would come within the provisions of such subsection, but it would be desirable, as indicated by your counsel, for the member bank to bear in mind the provisions of subsection (d) in connection with the proposed transaction in order to avoid any possible violation of that subsection.

While subsection (g) of section 22 prohibits loans 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 the partnership, that subsection does not by its terms prohibit a loan by a member bank to a corporation even though an executive officer of the member bank is substantially interested in the corporation. A corporation is an entity separate and distinct from the stockholders, whereas in the case of a partnership the partners are individually liable for the debts of the partnership. It is apparently on the basis of this distinction that Congress has included partnerships of the kind described within the prohibitions of subsection (g) of section 22 but has made no reference therein to corporations. Of course, there may be circumstances in a particular case where a loan by a member bank to a corporation in which an executive officer of the member bank is substantially interested would be an attempted evasion of the provisions of the law and, therefore, in contravention of such provisions. However, while it is not definitely stated, it is assumed that the loan will be made to the _____ Company in good faith and that the proceeds thereof will be used by the corporation for its corporate purposes. On such a basis, it is the Board's view that the loan in question would not be in contravention of section 22(g) of the Federal Reserve Act.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.