

INTERPRETATIONBANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

March 20, 1936

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

Dear Mr. Comptroller:

This refers to Mr. Lyons' letter of January 16, 1936, presenting a case involving the question whether liability of an executive officer of a member bank on a mortgage loan insured under the provisions of Title II of the National Housing Act and held by a bank is excepted from the provisions of section 22(g) of the Federal Reserve Act.

Under the provisions of Title II of the National Housing Act, a bank as well as other financial institutions may be approved by the Federal Housing Administrator as a "mortgagee", and such term is defined to include the original lender under a mortgage. Any person desiring to obtain a loan secured by a mortgage which may be insured under such Act deals directly with an approved mortgagee. The liability on mortgage loans insured under the provisions of the National Housing Act is not excepted from the provisions of section 22(g) of the Federal Reserve Act and liability of an executive officer of a member bank on such loans held by a bank is therefore subject to the provisions of that section. Inasmuch as a bank may deal directly with the person desiring to obtain such a loan, the opportunity for

an executive officer of a member bank to use his influence in the obtaining of such a loan is present to the same extent as in other types of loans and it appears, therefore, that such a transaction would fall within the purposes of the law as well as its terms.

In the particular case presented by Mr. Lyons, which arose out of an inquiry he received from a national bank, it appears that the insured mortgage loan is on the property of the wife of an executive officer of a member bank and that the payment of such loan is predicated upon her husband's income. It is not clear whether the husband is liable to a bank for the payment of the loan, or whether the loan was made under such circumstances as to indicate an attempt to evade the provisions of section 22(g). In the circumstances, the Board cannot undertake to advise you definitely whether the particular case comes within the provisions of section 22(g). However, the fact that the payment of the loan to the wife of the executive officer is predicated upon his income at least indicates that he may be liable on the obligation and would warrant a further inquiry by your office as to all of the circumstances involved in order to determine whether the executive officer of the national bank is violating the provisions of section 22(g).

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.