

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9666

August 4, 1936.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

SUBJECT: Authority of Federal Reserve Banks to
Accept Deposits of Funds of Federal
Deposit Insurance Corporation Held in
its Capacity as Receiver of Closed
Insured State Banks.

Dear Sir:

There is inclosed herewith a copy of a letter from the Board to the President of the Federal Reserve Bank of Richmond regarding the question whether a Federal Reserve bank may accept deposits from the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks.

There is also inclosed a copy of a letter dated July 1, 1936, from Mr. Albert H. Dudley, Chief of the New and Closed Bank Division of the Federal Deposit Insurance Corporation, outlining the arrangement under which it is proposed that deposits of these funds will be made in Federal Reserve banks.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.

COPY

X-9666-a

August 4, 1936

Mr. Hugh Leach, President,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Leach:

This refers to your letter of July 6, 1936, and inclosures, requesting the views of the Board upon the question whether a Federal Reserve bank may accept deposits made by the Federal Deposit Insurance Corporation consisting of funds held by the Corporation in its capacity as receiver of closed insured State banks.

Section 12B(n)(1) of the Federal Reserve Act provides in part as follows:

"Money of the Corporation not otherwise employed shall be invested in obligations of the United States or in obligations guaranteed as to principal and interest by the United States, except that for temporary periods, in the discretion of the board of directors, funds of the Corporation may be deposited in any Federal Reserve bank or with the Treasurer of the United States."

The question arises as to whether funds held by the Federal Deposit Insurance Corporation in its capacity as receiver of closed insured State banks may properly be considered as "funds of the Corporation" within the above quoted provision of the Federal Reserve Act, which Federal Reserve banks may accept as deposits.

There is, of course, a marked difference between funds

held by the Corporation in its own right and funds held by the Corporation in its capacity as receiver but, under a liberal construction of the language of the above statute, which is believed to be justified in this case, all of these funds may be considered as "funds of the Corporation". It is believed that the provisions of section 12B(n)(1) were intended to facilitate the operations of the Federal Deposit Insurance Corporation and, since Congress has provided that one of its functions shall be that of acting as receiver of closed insured State banks, it seems reasonable to believe that in the performance of this function Congress intended the Corporation to have the power to make deposits in Federal Reserve banks under the above quoted provision of the statute.

Accordingly, the Board has reached the conclusion that funds held by the Federal Deposit Insurance Corporation in its capacity as receiver of closed insured State banks may properly be considered as "funds of the Corporation" within the above quoted provision of the Federal Reserve Act, and that Federal Reserve banks may accept deposits of such funds under the arrangement outlined in the letter dated July 1, 1936, to your bank from Mr. Albert H. Dudley, Chief of the New and Closed Bank Division of the Federal Deposit Insurance Corporation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON

July 1, 1936

Federal Reserve Bank of Richmond
Richmond, Virginia

Gentlemen:

Subject: Deposits by Federal Deposit
Insurance Corporation as
Receiver of State Banks.

From time to time this Corporation is being appointed to serve in the capacity of receiver of insured state banks that suspend. In these cases the Corporation necessarily requires the services of an agent at the location of the suspended bank, who is designated by resolution of the Board of Directors of the Corporation with the title "Liquidator" and who acts for the receiver under the supervision and direction of this office.

For purposes of convenience and clearing miscellaneous checks and items accepted during liquidation a local bank is usually designated as the depository for trust funds held in the liquidator's account in an amount not exceeding \$5,000.00. It is the thought that, as the balance in this account increases to above the limit mentioned, transfers in even sums will be made periodically to the Federal Reserve Bank of the district in which the suspended bank is located for deposit in an account entitled "Federal Deposit Insurance Corporation, Receiver" of a given bank, and any withdrawals of funds from the account will be made by an officer of the Corporation duly authorized by resolution of the Board of Directors to act in that capacity. Such an account would be built up in the Federal Reserve Bank until sufficient funds were in hand to warrant the declaration of a dividend; whereupon one check would be issued against the receiver's account in the Federal Reserve Bank transferring the total amount required for such dividend to the Fiscal Agent of the Corporation, who would issue the dividend checks required against his account with the Treasurer of the United States.

While the Banking Act of 1935 clearly provides that the Corporation may carry its funds not otherwise employed on deposit with a Federal Reserve Bank, the question has arisen as to whether funds in the hands of the Corporation as the receiver of a closed insured state bank falls within that category. It is true that balances remaining in the proposed accounts are trust funds held by the Corporation in its capacity as receiver of a closed bank for the benefit of the creditors of such bank; however, it is a fact that this Corporation is the principal creditor, in many cases to the extent of one hundred percent, due to its being the assignee of insured deposit claims against the

Federal Reserve Bank of Richmond
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estate of the closed institution arising out of payments of insured deposits made by the Corporation to the depositors. Consequently, the Corporation has a potential ownership of a very large share of proceeds derived from all such liquidations.

In these circumstances it would appear that the receivership trust funds held by the Corporation as receiver of closed insured state banks would come within the meaning and intent of the framers of the Act, and we are desirous of perfecting an arrangement with you for the opening of an account such as outlined above, except in the isolated cases where possibly the provisions of state law would not permit. May we request advice that such a plan would be acceptable to you, in order that we may proceed to complete our system with respect to the depository for trust deposits?

Yours very truly,

(Signed) Albert H. Dudley

Albert H. Dudley
Chief New and Closed Bank Division