

X-9689
Reg. 0-25

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 3, 1936.

Mr. _____, President,
The _____ National Bank,
_____, _____.

Dear Sir:

This refers to your letter of August 6, 1936, in which you state that your bank had a loan to a certain individual for \$6,122.79 supported by a real estate mortgage upon which interest was long overdue; that taxes on the property were in arrears; that foreclosure was probable; and that the property was sold to the vice president of your bank who paid a certain amount in cash and assumed the mortgage for \$5,379.50. On the basis of these facts you inquire whether such transaction is in violation of the provisions of section 22(g) of the Federal Reserve Act and the Board's Regulation 0.

The determination of this question depends upon whether the transaction comes within an exception contained in section 22(g) of the Federal Reserve Act and in section 3(a)(3) of the Board's Regulation 0 which is to the effect that the provisions of section 22(g) shall not apply to "any loan, indebtedness, or extension of credit, regardless of the amount thereof, for the purpose of protecting a member bank against loss or giving financial assistance to it". You will observe that whether or not a particular indebtedness of an executive officer to a member bank comes within this exception depends

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upon the purpose for which such an indebtedness was incurred and that, under the law, such an indebtedness must be for the purpose of protecting the member bank against loss or giving it financial assistance. The facts submitted are some indication that in the particular case to which you refer the indebtedness was incurred for one of these purposes, but such facts standing alone do not necessarily show that the indebtedness was incurred for one of such purposes. In the absence of full information showing the purpose for which the indebtedness was incurred in the particular case to which you refer, the Board is not able to advise you definitely with regard to that case, but it is believed that in the light of the comments contained in this letter the board of directors of your bank should be able to determine whether or not the transaction is in violation of the provisions of section 22(g). However, if you should desire further information in this matter, it is suggested that you will find it more convenient to communicate with the Federal Reserve Bank of _____ which will be glad to advise you further regarding the matter and if you do so you should give that bank full information as to all of the facts involved.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.