

X-9873
Reg. F-10

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

April 10, 1937

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

Dear Mr. Comptroller:

This refers to Mr. Gough's letter of March 31, 1937, inclosing a copy of a letter from The _____ National Bank, _____, _____, requesting rulings concerning two questions involving interpretations of the Board's Regulation F.

It appears that it is the practice of the national bank to purchase from time to time for its various trusts one or more of a series of notes of the same obligor and secured by the same deed of trust on real estate, without purchasing all of the notes. It further appears that the bank in its own right has no interest in any of the series of notes and that such notes are purchased after an independent appraisal on behalf of the trust department. It is understood that the bank desires to know whether the investment of trust funds in this manner is in conflict with the requirements of the Board's Regulation F.

The only provisions of Regulation F which might be construed as prohibiting the practice described above are those contained in section 12 of the regulation which are to the effect that securities and investments of each trust shall be kept separate from those of all other trusts. However, it is the view of the Board that these provisions do not forbid the investment of trust funds in the manner described; it being understood, of course, that in any case the investments are otherwise proper investments for particular trusts in view of all the circumstances relating to each trust and that such investments are not otherwise subject to criticism.

The bank's second question has to do with the renewal for trust accounts of real estate mortgage notes purchased prior to the effective date of the Board's Regulation F through a corporation which is principally owned by a director of the bank or his immediate family. It appears that, prior to the effective date of the regulation, the bank invested funds of trusts administered by it in real estate mortgage notes purchased through

-2-

such corporation. It is understood that the corporation receives a commission from the borrower as compensation for securing the renewal of such notes from time to time. The question is raised as to whether, in view of all the circumstances, the renewal of these notes would be prevented by provisions of Regulation F.

Section 11 of the Board's Regulation F provides, among other things, that trust funds held by a national bank shall not be invested in property acquired from directors, officers, or employees of the bank or their interests. These provisions relate to the investment of trust funds and they do not require that assets which had already been acquired at the time of the effective date of the regulation shall be removed from trusts held by a national bank. The Board does not feel that a renewal of a note held as an asset of a trust at the time of the effective date of the regulation should be considered as an investment of trust funds within the meaning of these requirements of the regulation. Therefore, it is the view of the Board that the regulation does not prevent the renewal of the notes held by trusts as described above; it being understood, of course, that the investments are otherwise proper investments for particular trusts in view of all the circumstances relating to each trust and that such investments are not otherwise subject to criticism.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.