BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

R-125

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

December 6, 1937.

SUBJECT: Reconsideration of Exception in Section 3(a) of Regulation L re Morris Plan Banks.

Dear Sir:

Pursuant to the authority conferred upon it by Section 8 of the Clayton Act as amended by the Banking Act of 1935, the Board of Governors, as you know, has granted permission to any private banker or any director, officer or employee of a member bank to serve at the same time as a director, officer or employee of not more than one "Morris Plan bank, cooperative bank, credit union or other similar institution." This permission, which is set forth in Section 3(a) of the Board's Regulation L, was granted because it appeared that Morris Plan banks were not generally engaged in the same classes of business as commercial banks.

There appears, however, to be an increasing tendency on the part of commercial banks and on the part of Morris Plan banks and other similar institutions to engage in the same classes of business. Specifically, it appears that some Morris Plan banks and other similar institutions now receive deposits subject to check, as well as time and savings deposits, and that some no longer limit the scope of their lending activities to the type of loans which were originally peculiar to Morris Plan banks and similar institutions. Some commercial banking institutions, on the other hand, have inaugurated personal loan departments which are being operated on the basis of installment repayments and co-maker note security.

These developments raise the question whether Morris Plan banks and similar institutions, on the one hand, and commercial banks, on the other, are now engaged in some of the same classes of business to such an extent that the permission granted by the Board in Section 3(a) of Regulation L to serve a member bank of the Federal Reserve System and not more than one Morris Plan bank or other similar institution should be withdrawn. In the circumstances, it will be appreciated if you will ascertain and advise the Board

as to the approximate number of interlocking relationships involving Morris Plan banks and similar institutions in your district which would be prohibited by the Clayton Act except for the permission granted in Section 3(a) of Regulation L, and also as to the extent to which such institutions in your district are now engaged in the same classes of business as member banks.

It is not contemplated that the information desired by the Board will require that the Federal Reserve banks address questionnaires or other requests for information generally to the banks in their respective districts, as it is believed that data already in the possession of the Reserve banks by reason of their own intimate knowledge of banking conditions in their districts, or readily available to them through directories, reports of examinations, and discussions with examiners, supervisory authorities and representative bankers, should be sufficient to provide the Board with the information necessary to a proper consideration of the question. In addition, it is possible that counsel to your bank may have knowledge of developments which would have a bearing on the matter.

In submitting this information it will be appreciated if you will also give the Board the benefit of your views as to the desirability of amending Regulation L at this time by eliminating the words "Morris Plan bank," from Section 3(a) thereof.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS