

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

August 4, 1937.

Mr. \_\_\_\_\_, First Vice President,  
Federal Reserve Bank of \_\_\_\_\_,  
\_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

This refers to your letter of June 9, 1937, and its inclosure, relating to an inquiry from The \_\_\_\_\_ National Bank at \_\_\_\_\_, \_\_\_\_\_, concerning the application of section 11(a) of the Board's Regulation F.

The bank inquires whether such section prohibits the bank from investing trust funds in real estate mortgage loans purchased through \_\_\_\_\_ Company, Inc., of which Mr. \_\_\_\_\_, a director of the bank, is chairman of the board of directors. It is stated that such loans are not obligations of \_\_\_\_\_ Company, Inc.; that proposed loans are submitted to the trust department of the bank before commitment and closed only after its approval; and that they are secured by first mortgages on real estate of a sufficient appraised value to meet the requirements of the Nebraska law. In the latest report of examination of the bank the investments in such mortgage loans which had been made since June 1, 1936, were criticized as being in violation of the regulation.

The bank also inquires whether the above-mentioned provisions of the regulation apply to "general market and listed bonds," mentioning obligations of \_\_\_\_\_ Power Company and \_\_\_\_\_ Railroad Company. It appears that a director of the bank is a director and vice president and general manager of \_\_\_\_\_ Power Company and that another director is a director and executive vice president of \_\_\_\_\_ Railroad Company. It is stated that the bank has in the past purchased obligations of such companies for trust accounts and that such obligations are on the bank's list for future investments.

The views expressed by the Board in its letter of this date to you, relating to a similar inquiry from The \_\_\_\_\_ National Bank, \_\_\_\_\_, are equally applicable in connection with this inquiry and it is suggested that you advise The \_\_\_\_\_ National Bank at \_\_\_\_\_ in accordance therewith. In addition, the bank should be advised that the fact that bonds are listed on a securities exchange or possess a general market does not make the pertinent provisions of the regulation inapplicable thereto, although it may have a bearing on the question whether the interest of officers, directors, or employees of the bank in the obligor is such as might affect the exercise of the best judgment of the management of the bank in investing trust funds in such bonds.

Further, the Board feels that it should specially call attention to the fact that the mortgage loans in question quite clearly constitute "property acquired from" \_\_\_\_\_ Company, Inc., within the meaning of the regulation, and that, even though such loans are otherwise proper trust investments, their purchase is forbidden, if, as apparently may be the case, \_\_\_\_\_ Company, Inc. is an "interest" of Mr. \_\_\_\_\_ within the spirit and purposes of the regulation.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.