

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal reserve banks)

September 30, 1937.

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

Dear Mr. O'Connor:

This refers to Mr. Gough's letter of September 3, 1937, requesting a ruling upon a question presented by Mr. _____, Vice President of the _____ National Bank, _____, _____ Mr. _____ inquires whether it is permissible for the Board of Directors of his bank to grant authority to an executive officer to borrow up to \$2500 and permit this authority to continue in full force and effect until revoked.

As you know, section 22(g) of the Federal Reserve Act prohibits an executive officer from borrowing from or otherwise becoming indebted to the member bank with which he is connected, but contains an exception under which an executive officer may become indebted to such bank in an amount not exceeding \$2500 with the prior approval of a majority of the entire board of directors. The Board's Regulation O provides that a loan or extension of credit of not exceeding \$2500 must in each case be given prior approval by a majority of the entire board of directors of the member bank.

To facilitate the practical application of the law and the regulation the Board of Governors will consider that the requirement of the regulation with respect to the prior approval of loans not exceeding \$2500 is met in a case in which a majority of the board of directors of a member bank grant continuing authority for such a loan or extension of credit to an executive officer if such approval by its terms remains in effect for only a reasonable period of time and in no event longer than twelve months. The authority given by the board of directors in such a case may, if desired, provide that the executive officer may borrow from time to time during the effective period of the approval granted, upon condition, of course, that the amount of the indebtedness outstanding at any one time does not exceed \$2500.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.