INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 20, 1939.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Reference is made to your letter of March 3, 1939, with respect to section 11(m) of the Federal Reserve Act, which provides in part as follows:

> ". . . loans secured by stock or bond collateral made by member banks . . . , but no such loan shall be made by any such bank to any person in an amount in excess of 10 per centum of the unimpaired capital and surplus of such bank . . . "

Although other provisions of section 11(m) authorize the Board of Governors to place certain limitations on the aggregate amount of member banks' loans secured by stock or bond collateral, action by the Board to impose such an aggregate limitation is not a prerequisite to the operation of the 10 per cent limitation quoted above.

It is a settled principle of the law applicable to partnerships that each general partner is individually liable for the debts of the partnership. Accordingly, the Board agrees with the view expressed by counsel to your bank that, if a person is a general partner in an unlimited partnership and a State member bank already has outstanding to the partnership loans on stock or bond collateral in an amount equal to 10 per cent of the bank's unimpaired capital and surplus, the quoted provision forbids the bank to make any additional loan on such collateral to one of the general partners.

It is assumed, of course, that the loans are not secured by Government obligations and hence do not get the benefit of the 25 per cent special loan limit specified in section 11(m) for loans on such securities.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.