

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON

R-703

ADDRESS OFFICIAL CORRESPONDENCE  
TO THE BOARD

September 27, 1940



Dear Sir:

As you know, section 21(a)(2) of the Banking Act of 1933 makes it unlawful for persons and certain organizations to engage in the business of receiving deposits unless such person or organization (1) is incorporated and authorized to engage in such business by the laws of the United States or of any State, territory, or District, or (2) shall be permitted by any State, territory, or District to engage in such business and shall be subjected by the laws thereof to examination and regulation, or (3) shall submit to periodic examination by the banking authority in the State, territory, or District where such business is carried on and shall make and publish periodic reports of its condition in the same manner and under the same conditions as is required by law in the case of incorporated banking institutions.

For your information in connection with this subject, the Board has been advised by the Department of Justice that there is pending in one of the judicial districts of Illinois a case brought under the provision of law referred to above against a so-called "currency exchange". This case is regarded by the Department of Justice as a test case to determine whether prosecutions will be had of other currency exchanges operating in such State. We will advise you of the outcome of this case upon receipt of such information from the Department of Justice.

For your further information, it has come to the attention of the Board that in certain sections of the country organizations known as "Exchange-Trusts" have been established in small towns having no banking facilities, which organizations purport to be members of the "National Exchange-Trust System" located in Washington, D. C. It appears that in some cases the "Exchange-Trusts" accept deposits withdrawable by check and savings deposits evidenced by pass books. They conduct a "general exchange business" for the member-patrons, cashing checks, receiving money, drafts, checks and other exchange items for the account of their patrons. Their income is usually derived from service charges on checking accounts and commissions on

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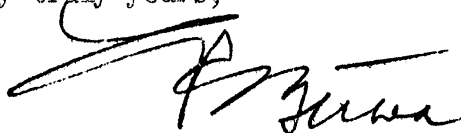
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loans which purport to be made from one customer to another rather than direct from the "Exchange-Trust" to the customer. These so-called "Exchange-Trusts" may, possibly, be operating in violation of section 21 of the Banking Act of 1933, depending on whether they comply with the provisions of such section.

In a case involving an "Exchange-Trust" which was recently brought to the attention of the Board by one of the Federal Reserve Banks, the Federal Reserve Bank contacted the State banking authorities to determine whether the "Exchange-Trust" was being operated under the State law. It was found that it was not being so operated and the State authorities took steps to have the "Exchange-Trust" terminated. We understand that the Federal Bureau of Investigation has conducted an investigation of the National Exchange-Trust System and has been unable to establish its existence in Washington. We are advised, however, that the title "National Exchange-Trust System" and also a charter, constitution, and by-laws of a so-called "Exchange-Trust" have been copyrighted by Elmon Armstrong and Co. As you know, of course, the copyright laws do not grant authority to do business.

The above is written solely as a matter of information and it is not intended to suggest any departure from the present practice of reporting apparent violations of section 21 of the Banking Act of 1933 to the appropriate authorities.

Very truly yours,



L. P. Bethea,  
Assistant Secretary.

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS