

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

January 3, 1941

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

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

This refers to your letter of December 24, 1940 inquiring whether certain loans made to Mr. (A), President of the \_\_\_\_\_ Trust Company, \_\_\_\_\_, \_\_\_\_\_, and held as assets of a voluntary trust of which such bank is trustee are in violation of section 22(g) of the Federal Reserve Act.

Your letter states that on May 16, 1936 Mr. (A), then Vice President of the bank, borrowed a sum of money from Mr. (B), a director of the bank, the balance of which is now \$10,000. Subsequent to the granting of the loan Mr. (B) caused the note to be set up along with other assets in a voluntary trust which had been created in 1935 with the member bank as trustee. In February 1940 an additional loan, the balance of which is \$2,100, was made by Mr. (B) to Mr. (A) and the note representing this loan was added to the same trust. You state that the trust is regarded by Mr. (A) as a sort of agency and provides not only for additions and revocation but also for direction as to investment by the donor.

As you know, the Board, in its letter of March 20, 1936 (X-9528), took the position that the restrictions contained in section 22(g) of the Federal Reserve Act and the Board's Regulation O include loans to executive officers of member banks from trust funds administered by such banks. However, the Board stated in its letter of May 20, 1938 (S-98) that it would not interpose any objection to a transaction by which a member bank, as trustee, acquired a note of one of its executive officers, in the light of the facts stated in such letter.

It appears from your letter of December 24, 1940, that the executive officer in this case did not borrow trust funds which were being administered by the bank and that the donor of the trust, who made the loans from his personal funds, placed the notes evidencing such loans in the trust in accordance with his rights reserved in

the trust instrument to direct the investment of the trust funds. In these circumstances and upon the assumption that the transactions were entered into in good faith and not for the purpose of evading the statute, it does not appear to the Board that they constitute violations of the law. It is noted, however, that your bank has advised the member bank that a violation of the law is involved, and if, after further consideration of the matter with your Counsel in the light of all the information that may be available to you, it is still your view that the transaction is one which falls within the prohibitions of the statute, we will be glad to have you take the matter up again with the Board with a statement of your views and those of your Counsel.

It does not appear that an interpretation of Regulation F is involved since \_\_\_\_\_ Trust Company is a State institution and is not subject to a condition of membership comparable to the provisions of such regulation which relate to the investment of trust funds in obligations of officers of the trustee bank.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
Assistant Secretary.