

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve Banks)

April 2, 1941

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

Dear Mr. _____:

This refers to your letter of March 19, 1941, enclosing a copy of a letter dated March 15, 1941, from Mr. (A), Chairman of the board of directors of the _____ National Bank, _____, _____, to Mr. _____, Chief National Bank Examiner, inquiring whether section 22(g) of the Federal Reserve Act would prohibit the _____ National Bank from making a loan to (A) as trustee of his father's estate.

It appears that Mr. (A) is chairman of the board of directors of the national bank. It also appears that he is trustee of his father's estate, in which he has a life interest, and that the property of the estate will upon his death vest in his two sons, one of whom is vice president of the national bank. The trust estate consists of property with a value in excess of \$100,000 with no indebtedness, the principal item being a business block yielding approximately \$7,500 per annum, and the estate may wish to borrow about \$15,000, which Mr. (A) describes as a "gilt-edged" loan and one "that any bank would obviously welcome".

It will be assumed that under the laws of the State of _____ a trustee in borrowing on behalf of the trust may sign the instrument in such a way as to avoid any personal liability on the obligation and that the proposed loan would be handled in this way. While the trustee would thus have no personal liability, he would benefit directly from the making of the loan in his capacity as life tenant of the trust estate, which would be obligated on the note. He is interested in the loan both in a representative capacity and in his own right. In this connection, it is noteworthy that the law forbids a member bank to make any loan or "extend credit in any other manner" to an executive officer.

It appears that the principal purpose underlying the enactment of section 22(g) of the Federal Reserve Act was to prevent the

exercise of undue influence by executive officers of member banks in obtaining credit from the banks they serve; and, while there is nothing to suggest that any such influence would be used in this particular instance, it is apparent that the case is one of a type in which undue influence may readily be exercised.

In all the circumstances, and particularly in view of the fact that Mr. (A) is not only trustee but also a beneficiary of the trust estate which would receive the loan, it is the view of the Board that the making of the loan proposed would contravene the intention of Congress and would be inconsistent with the provisions of the statute.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.