

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

S-264
Sec. 5136 R.S.-18

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD



May 21, 1941

Dear Sir:

There is enclosed for your information a copy of a letter dated May 13, 1941 from Mr. C. B. Upham, Deputy Comptroller of the Currency, advising that the Office of the Comptroller of the Currency recently has taken the position that bonds of the Port of New York Authority and bonds of the Triborough Bridge Authority of New York are not "general obligations of any State or of any political subdivision thereof" within the meaning of that term, as used in section 5136, U.S.R.S. It is suggested that this matter be brought to the attention of the examiners for your Bank.

Very truly yours,

L. P. Bethea,
Assistant Secretary.

Enclosure

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS

TREASURY DEPARTMENT
Comptroller of the Currency
Washington

May 13, 1941

Board of Governors of the
Federal Reserve System,
Washington, D. C.

Gentlemen:

Reference is made to your letter of April 29, 1941, relative to the bonds of the Port of New York Authority, New York, and bonds of the Triborough Bridge Authority of New York. You state that you have been advised informally that this office has taken the position that such bonds are not general obligations of any state, or of any political subdivision thereof, within the meaning of section 5136 of Rev. Stat. of 1873, as amended (U.S.C. title 12, sec. 24), and that member banks are subject to the limitations and restrictions contained in section 5136 as to dealing in, underwriting, and purchasing such securities. You desire a verification of your understanding and ask, if this office can conveniently do so, to be furnished with copies or a statement of the substance of the rulings or letters of this office in which the positions indicated were taken.

This office recently has taken the position that bonds of the Port of New York Authority and bonds of the Triborough Bridge Authority of New York are not "general obligations of any State or of any political subdivision thereof" within the meaning of that term, as used in section 5136. We hereinbelow quote a typical reply that has been made by this office to national banks making inquiries in this respect.

"National banks are governed in the purchase of investment securities by the provisions of section 5136 of Rev. Stat. of 1873, as amended (U.S.C. title 12, sec. 24) wherein certain exemptions are provided to the basic 10% limitations imposed thereby. It is believed that the bonds in question do not qualify under any of the exemptions thus provided. However, it is the position of this office that the bonds of the Triborough Bridge Authority of New York and the Port of New York Authority, New York, meet the requirements of section 5136 and the regulations of the Comptroller of the Currency issued thereunder

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within the 10% limitations of this section and may be purchased by national banks within such limitations."

As you no doubt are aware, this position is a reversal of a position taken by this office some years ago with respect to these bonds. Inasmuch as some banks, in the light of our former ruling, may have purchased such bonds in excess of their 10% limitations under section 5136, this office has followed the policy in administering this new ruling, of calling any such excess to a national bank's attention, when found to exist in their bond portfolio, with the instructions that the bank should dispose of their excess holdings therein whenever they can do so without loss, rather than requiring that disposition be made of such bonds immediately. It is believed that such a process will result in a gradual, rather than a sudden liquidation of any excess amount of such bonds which may have been purchased by banks under our former ruling.

Very truly yours,

(Signed) C. B. Upham

Deputy Comptroller