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National Bank and Federal Reserve Law Amendments

CARL ZOLLMANN*

The act of Congress amending the National Banking laws and the Federal Reserve Act, which was approved February 25, 1927, makes a good many changes in the national banking system but will be chiefly remembered because of the change which it affects in the power of a national bank to acquire branch banks. Ever since the days of Andrew Jackson, when political pamphleteers and stump speakers painted in lurid colors the expanding powers of the money trust (referring to the second United States Bank) and thus brought about the dissolution of that institution, there has been a fierce prejudice against branch banking in the United States.

The very purpose of the National Bank Act of 1864 was to prevent any single bank from becoming too powerful, and, hence, stringent provisions were inserted in the statute against such a result. In consequence a national bank could acquire branch banks only by indirectness. It could organize a state bank, have that state bank acquire all the branches which it desired, then transform the state bank into a national bank, and consolidate with it. Under the present amendment this cumbersome process is practically eliminated. Under Section 1 a state bank may now consolidate directly with a national bank and need not pass through the process of first becoming a national bank. Under Section 7 any national bank may establish and operate new branches within the limits of a city, town or village with a population of over 25,000, if state banks have this privilege. A population of from 25,000 to 50,000 entitles a national bank to one branch, a population of from 50,000 to 100,000 entitles it to two branches and if the population is greater, the discretion of the Comptroller of the Currency is the determining factor.

No branch once established may be moved without the consent of the comptroller. Under Section 8 the general business of the bank may be carried on at the place designated in the organization certificate and in

* Professor in the Marquette University School of Law.
the branch or branches established and maintained by it. Under Section 9 no state bank may retain or acquire stock in a Federal Reserve bank except upon relinquishment of any branch or branches established after the date of this act beyond the limits of the city, town or village. Under Section 19, the Federal Reserve Board may at any time require any Federal Reserve Bank to discontinue any branch of said Federal Reserve Bank, which thereupon is to be wound up.

Another very important change is in regard to the capital stock. Section 16 for the first time authorizes shares of stock of less than $100 face value. Section 4 provides that in cities over 50,000 where state banks are permitted to organize with a capital of $100,000 or less, a national bank may with the Comptroller's consent be organized in the outlying districts with a capital of $100,000. Under Section 5 the capital stock of a national bank may be increased by the declaration of a stock-dividend, provided that two-thirds of the stock votes for such increase, the Comptroller of the Currency consents, and the surplus remaining after such increase will be at least 20 per cent of the stock as so increased.

The powers of a national bank are increased in some respects and decreased in others. It formerly was limited in its purchase of real estate to "such as shall be necessary for its immediate accommodation in the transaction of its business." Section 3 eliminates the word "immediate." Formerly a national bank not situated in a central reserve city could loan on farms for five years and on other real estate for one year. Now under Section 16 all national banks are authorized to loan on either farms or other real estate for the term of five years. Section 2b specifically limits national banks in selling investment securities to selling them without recourse and gives the Comptroller of the Currency power to define the term investment securities. Section 16 prohibits national banks from paying on savings deposits more than the maximum rate authorized by the State Laws. Section 2b provides that no national bank shall invest in the stock of a safe-deposit company more than 15 per cent of its capital stock and 15 per cent of its unimpaired surplus. Section 10 completely recasts section 5,200 of the revised statutes of the United States in regard to the definition of the 10 per cent of the capital stock which a national bank is authorized to loan to any one borrower. The section is too long to be even abstracted here.

When the National Bank act was passed it was felt that the franchise of any national bank must be limited so as to prevent it from getting too powerful. All such fear has now passed away. The strongest national bank is really weak and puny as compared with the power of the country. Whereas formerly a national bank had power to have
succession until 99 years from July, 1922, this provision is now eliminated and the bank has succession until it is dissolved by the act of its shareholders, or its franchise is forfeited or Congress terminates its existence or its affairs are wound up through a receiver. (Section 2a)

Where formerly such a bank had power to have succession for a period of twenty years unless it was dissolved by Congress or its franchise was forfeited the twenty-year requirement is now stricken out and the bank need not hereafter reorganize every twenty years. (Section 18)

There are a few minor changes which may be noticed in closing. Formerly a bank examiner was declared to be guilty of a crime if he accepted any gratuity or loan from any national bank. Section 15 extends this provision to assistant bank examiners and adds to it the larceny or abstracting of any property or record of the bank. Section 13 allows the reports to the Comptroller to be sworn to by other officers than the president and cashier. Formerly the statutes made it unlawful for a national bank to certify a check unless credit sufficient to cover it had been regularly entered on the books of the bank in favor of the drawer. Section 12 very rationally declares that it is sufficient that the drawer had regularly deposited the requisite amounts. Finally Section 6 makes the president of a national bank the chairman of the board of directors unless the directors have specifically designated someone else for that position.