

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date January 21, 1938

To Chairman Eccles

Subject: Possible modification of capital requirements for member banks having branches.

From Messrs. Blattner, Cagle, Wingfield

CONFIDENTIAL

You will recall our discussion in your office yesterday relating to the obstacles to membership in the Federal Reserve System caused by the present high capital requirements applicable to member banks having out-of-town branches. With certain limited exceptions, a national or State member bank must have at least \$500,000 capital if it has one or more out-of-town branches, regardless of the fact that nonmember State banks may be authorized to establish such branches with a much less amount of capital. Such nonmember State banks might become insured banks without increasing their capital.

When the Board was giving consideration last spring to possible modifications in the banking laws, the following amendment was suggested to eliminate the difficulties caused by branch capital requirements in the Federal laws:

"Also an amendment to provide that a State member bank or a national bank having branches shall have capital adequate in relation to its deposit and other corporate responsibilities, in the judgment of the Board of Governors or the Comptroller of the Currency, as the case may be, provided that such capital shall be not less in any case than the amount required by State law of State banks operating the same number of branches in places in which the bank's branches are located. Such provisions would take the place of the present capital requirements specifically prescribed by the law for member banks having branches." (Board's minutes of January 7, 1937.)

You will observe that such amendment would not involve any extension of branch banking area, but would merely eliminate a discrimination against member banks as a result of capital requirements in the Federal law which are higher than those contained in the State laws.

Respectfully,

G. W. Blattner

C. E. Cagle

B. Magruder Wingfield

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