

ANALYSIS OF REPLIES RECEIVED FROM THE RESERVE BANKS  
TO QUESTIONS RE MEMBERSHIP CONDITIONS (Letter 12-17-46)

Question 1. What has been the reaction of prospective and existing member banks to the present standard conditions of membership?

(a) BOSTON:

No objection except to #6 in Connecticut.

(b) NEW YORK:

No objection except to #3.

(c) PHILADELPHIA:

No objection except to #4 with regard to purchase of controlled Savings and Loan shares for trust accounts and to #5 because of the prohibition against participation of a mortgage not conforming to Section 24, F. R. Act.

(d) CLEVELAND:

No objection except to #6 in Pennsylvania.

(e) RICHMOND:

No objection except to some special conditions and possibly #4 as it pertains to investment of trust funds in "interests."

(f) ATLANTA:

No objection except to #3 and from one bank with respect to #4 which was not made applicable to a competitor admitted before it was generally prescribed.

(g) CHICAGO:

No objection except to #3.

(h) ST. LOUIS:

No objection except #6.

(i) MINNEAPOLIS:

No objection except to #3.

(j) KANSAS CITY:

No objection except occasional question as to formula for determining adequate capital under #2.

(k) DALLAS:

No objection except minor re #3.

(l) SAN FRANCISCO:

No objection except special conditions.

Summary of objections:

Condition #1. None.

#2. Kansas City.

#3. New York; Atlanta; Chicago; Minneapolis; Dallas.

#4. Philadelphia; Richmond; Atlanta.

#5. Philadelphia.

#6. Boston; Cleveland; St. Louis.

Question 2. Do you consider it necessary or advisable to prescribe any conditions governing a bank after its admission to membership?

Answered affirmatively by all banks subject to the following exceptions:

Boston would prescribe only necessary special conditions in particular cases.

Richmond suggests that the Federal Reserve Act should be amended to impose upon member banks the limitations and restrictions now imposed by standard conditions of membership and that thereafter only necessary special conditions be prescribed in particular cases.

Minneapolis suggests amendment of Regulation H to substitute the following for the present provisions of Section 6:

"Each member bank shall at all times conduct its business and exercise its powers in accordance with the applicable provisions of federal and state law and in a safe and prudent manner. Should any member bank fail to do so, it shall be within the power of the Board, after hearing, to require such bank to surrender its stock in the Federal Reserve Bank and to forfeit all rights and privileges of membership. Any decision of the Board on any issue of fact which is supported by substantial evidence shall be final."

Question 3. Do you recommend a modification, restatement, or elimination of any of the present standard conditions? Do you recommend any other conditions, and if so, what? In this connection, please consider the following more specific questions:

- (a) Bearing in mind that standard condition numbered 3 relates only to dealings in a particular class of asset and dealings in other assets are not specifically mentioned in the standard conditions, should this condition be eliminated, modified, or retained in its present form, and why?
- (b) What arguments can be made for the elimination or retention of any or all of the three standard trust conditions (numbered 4, 5, and 6)? Should there be any conditions relating to specific practices in connection with the exercise of trust powers? Should there be a general condition of broader scope relating to trust activities?
- (c) Are the first clauses of standard conditions numbered 1 and 2 necessary or desirable, and why?

The general question.

Only St. Louis and San Francisco recommend no modification, restatement or elimination.

Suggestions for consolidation of conditions, inclusion in statute, regulation or application form, and for certain eliminations, are made. No new conditions are recommended except as indicated below.

(a) Condition numbered 3.

Boston recommends no standard conditions.

New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, Minneapolis and Dallas recommend elimination.

St. Louis, Kansas City and San Francisco recommend retention:

St. Louis because it prevents a revival of an undesirable practice; Kansas City because it is sound and properly integrated with Section 5136, R. S.; San Francisco because it constitutes a warning to State member banks that such practices are not permissible.

(b) Trust conditions.

<u>No trust conditions:</u>	<u>Retain all or part:</u>	
Boston	New York	St. Louis
Cleveland	Philadelphia	Kansas City
Chicago	Richmond	Dallas
Minneapolis	Atlanta	San Francisco

Arguments and suggestions:

BOSTON: Elimination of trust conditions part of proposal to eliminate all so-called standard conditions.

NEW YORK: Would eliminate #4 because self-dealing prohibited by law.

Would eliminate #5 as not needed.

Would retain #6 until all States provide statutory preference for trust funds deposited.

No general trust condition of broader scope recommended.

PHILADELPHIA: Retain all as consistent with generally accepted principles and imposing proper standards.

No general condition of broader scope recommended.

CLEVELAND: Eliminate as superfluous and covered by applicable State law, at least in fourth district.

If #6 retained, exempt portion of uninvested trust funds covered by FDIC insurance.

RICHMOND: Sees no pressing need for elimination of trust conditions which are based upon accepted trust principles.

Would eliminate words "or their interests" in #4.

ATLANTA: Retain as based upon fundamental trust principles.

Suggest consideration of general condition requiring agreement to be subject to a revised Regulation F, but note obvious objection that present members would not be subject to such condition.

CHICAGO: Eliminate. Purpose served by State law.

ST. LOUIS: Recommend no change. Argument lengthy but generally to the effect that such conditions impose upon State banks standards defined in Regulation F for national banks.

Recommend no other condition.

MINNEAPOLIS: Eliminate. Exercise of trust powers should be in conformity with State law. The several footnotes with respect to the conditions indicate that they are not to be taken literally.

KANSAS CITY: Recommend amplification of #4 to cover sale or transfer.

Recommend clarification of #5 to require that State banks operating common trust funds should do so in accordance with Section 17 of Regulation F.

Suggest amendment of #6 to except banks in States that do not permit pledge of assets for the purpose.

Recommend that substance of sections 6 and 7 of Regulation F regarding trust management and regarding books and accounts be added as conditions of membership.

DALLAS: Feel that present conditions constitute minimum requirements.

Believe that over long range an objective of prescribing condition requiring compliance with Regulation F would be appropriate.

No condition of broader scope suggested.

SAN FRANCISCO: Do not eliminate because of contractual aspect of membership and salutary effect of conditions on members.

Discuss requiring compliance with substantially all of Regulation F, but recognize legal or administrative difficulty.

(c) First clauses of conditions 1 and 2.

BOSTON: Eliminate all standard conditions.

NEW YORK: Delete first part of both.

PHILADELPHIA: Consider first clauses desirable. Inclusion serves to emphasize and strengthen position of Board and Reserve Banks when corrective action is needed. Deletion might be subject to erroneous interpretation.

CLEVELAND: First clause #1 unnecessary.

First clause #2. "There has been no definition of what constitutes adequate capital."

RICHMOND: Eliminate first clause #1. State in such general terms as to be difficult of application.

Eliminate first clause #2. Also in general terms. No formula for capital adequacy.

ATLANTA: Consider both first clauses desirable as they furnish a starting point for any supervisory action in such matters.

CHICAGO: Neither first clause necessary.

Provision of first clause #1 more adequately covered by Section 30.

No standard established for first clause #2.

ST. LOUIS: Both considered desirable because they act as safeguards of the responsibilities of the Board and Reserve Banks for supervision of State banks after admission to membership.

MINNEAPOLIS: Eliminate.

KANSAS CITY: Recommend deletion of both first clauses.

#1. Ample means available for enforcing requirement without statement in condition.

#2. No definite standard.

DALLAS: Consider desirable although may not be necessary. Although general, provide standards of some value.

SAN FRANCISCO: Desirable.

#1 as basis for disciplinary action if needed.

#2 as springboard for demands for increasing capital.

In summary:

Delete first part or  
eliminate in toto:

Boston  
New York  
Cleveland  
Richmond  
Chicago  
Minneapolis  
Kansas City

Retain:

Philadelphia  
Atlanta  
St. Louis  
Dallas  
San Francisco