

FEDERAL RESERVE BANK OF DALLAS

STATE BANK CONDITIONS OF MEMBERSHIP

Pursuant to the authority contained in the first paragraph of section 9 of the Federal reserve act, which provides that the Federal Reserve Board may permit applying banks to become members of the Federal reserve system "subject to the provisions of this act and to such conditions as it may prescribe pursuant thereto," the Federal Reserve Board will prescribe the following conditions of membership for each bank or trust company hereafter applying for admission to the Federal reserve system, in addition to such other conditions as the board may consider necessary or advisable in the particular case:

- (1) - Except with the permission of the Federal Reserve Board, such bank shall not cause or permit any change to be made in the general character of its business or in the scope of the corporate powers exercised by it at the time of admission to membership.
- (2) - Such bank shall at all times conduct its business and exercise its powers with due regard to the safety of its depositors.
- (3) - Such bank shall maintain its loans within the limits prescribed by the laws of the State in which it is located.
- (4) - The board of directors shall not permit loans to directors, officers, employes, principal stockholders and/or their interests, including loans to, or upon the security of stocks of, corporations in which any of them have substantial interests, to assume unduly large proportions or to endanger the bank's solvency or the liquidity of its assets, and the board of directors shall give special attention to all such loans.
- (5) - Such banks shall maintain adequate credit data in connection with all unsecured loans.
- (6) - Such bank shall keep past due paper and overdrafts at a minimum and shall not hold any checks in cash items to avoid overdrafts.

- (7) - Except with the permission of the Federal Reserve Board, such bank shall not purchase or acquire through any device whatever any stock of any other bank, trust company, or other corporation of any kind or character except in satisfaction or protection of debts previously contracted in good faith; and all stock acquired in satisfaction or protection of debts shall be disposed of within six months from the date on which it was acquired unless the time is extended by the Federal Reserve Board on the application of such bank for good cause shown.
- (8) - Such bank shall not permit any investment in a bank building or in a site for a bank building to assume such proportions as, in the judgment of the Federal Reserve Board, would endanger the bank's solvency or liquidity or would otherwise be unduly large or improper, and before any investment is made in a bank building or a site for a bank building the bank shall refer the matter to the Federal Reserve Board for consideration.
- (9) - Such bank shall not reduce its capital stock except with the permission of the Federal Reserve Board.
- (10) - Such bank shall not pay any dividends which will reduce its surplus below an amount equal to at least 20 per cent of its capital stock, and if at any time its surplus should be less than 20 per cent of its capital stock it shall carry to its surplus account annually, or for any shorter period covered by each closing of its books, not less than 50 per cent of its net earnings for any such period after deducting all losses and providing reserves for depreciation.
- (11) - Such bank shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal reserve system, and shall at all times maintain such balances within such limits.
- (12) - Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, engage in the business of issuing or selling, either directly or indirectly (through affiliated corporations or otherwise), notes, bonds, mortgages, certificates, or other

evidences of indebtedness representing loans secured by real estate or participations therein either with or without a guarantee, endorsement or other obligation of such bank or an affiliated corporation.

(13) - Such bank may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal reserve act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank, may increase this limit from 50 per cent to 100 per cent of its capital and surplus; provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank.

(14) - The board of directors of such bank shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank is located and the banking authorities of the State in which such bank is located.

The board will also prescribe for each trust company or bank exercising trust powers at the time of its admission to membership the following conditions of membership which are appropriate for institutions exercising trust powers:

(15) - Such bank shall not, after the date of its admission to membership, invest trust funds held by it in obligations of the bank's directors, officers, employees or their affiliations or corporations affiliated with the banks.

(16) - Except with the permission of the Federal Reserve Board, such bank shall not, after the date of its admission to membership, invest the funds of vari-

ous trusts held by the bank in participations in pools of mortgage bonds or other securities, and the funds of all such trusts shall be invested separately from each other: Provided, however, that the Federal Reserve Board will not object to the collective investment of small amounts of trust funds where the cash balances to the credit of certain trust estates are too small to be invested separately to advantage if the bank owns no participation in the securities in which such collective investments are made and has no interest in them except as trustee or other fiduciary.

- (17) - If trust funds held by such bank are deposited in its banking department or otherwise used in the conduct of its business, it shall deposit with its trust department security in the same manner and to the same extent as is required of national banks exercising fiduciary powers.