

FEDERAL RESERVE BANK OF DALLAS

Dallas, Texas, July 20, 1934.

Requirements and Procedure Governing the Admission of State Banks and Trust Companies to Membership in the Federal Reserve System

1. Capitalization Requirements.

All State banks (with the exceptions noted below) to be eligible for membership must have a paid-in, unimpaired capital equal to the amount that would be required of a National bank in the same town or city, based on the population of the place, as follows:

<i>Population</i>	<i>Capital</i>
Up to 6,000 - - - - -	\$ 50,000
Over 6,000 but not over 50,000 - - - - -	100,000
Over 50,000 - - - - -	200,000

Exceptions: A State bank or trust company organized prior to June 16, 1933, situated in a town whose population does not exceed 3,000 inhabitants and having a capital of not less than \$25,000, is eligible for membership. Should such a bank have a capital of less than \$25,000 it may qualify for membership by increasing its capital to \$25,000 while it is entitled to the benefits of deposit insurance under Section 12B of the Banking Act of 1933. A State bank or trust company located in an *outlying district* of a city whose population exceeds 50,000 is eligible for membership if it has a capital of not less than \$100,000.

2. Condition, Management, and Powers.

In passing upon applications for membership the Federal Reserve Board will consider especially —

- (1) Condition and management of applying bank, as reflected by current, acceptable examination reports.
- (2) Whether powers exercised by bank under its charter and the laws of its state are consistent with the purposes and provisions of the Federal Reserve Act.

3. Losses.

All losses existing in the bank's assets, together with any depreciation in bonds and securities not within the four highest grades as rated by a recognized investment service organization, and any depreciation in corporate stocks or defaulted bonds, must be charged off prior to bank's admission to membership. In addition, bank must have sufficient surplus, undivided profits and reserves to cover any depreciation in securities rated within the four highest grades.

4. Conditions of Membership (General).

In order to develop a more effective supervision of banking in the Federal Reserve System, and to develop better banking practices on the part of member banks, the Federal Reserve Board has prescribed 15 General Conditions of Membership which must be accepted and complied with by all State banks hereafter admitted to the Federal Reserve System, and also three additional General Conditions which must be accepted if the applying bank exercises any form of *trust powers*:

These conditions, each one of which should be carefully studied in advance by every bank that contemplates applying for admission to membership in the Federal Reserve System, are quoted below. SPECIAL ATTENTION is invited to Conditions Nos. 1, 5, 10, 12 and 14.

- (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, employees, 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 bank 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 real estate loans 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.**
- (15) Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, shall be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities and, in some circumstances, should be more than one-tenth of such amount.

The following general conditions apply **ONLY** to **BANKS EXERCISING TRUST POWERS**:

- (16) 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 bank.
- (17) 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 various 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.
- (18) 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.

5. Conditions of Membership (Special).

In particular cases, the Federal Reserve Board may find it desirable to prescribe certain SPECIAL conditions of membership (in addition to the above-quoted *general* conditions) to correct unsatisfactory conditions or practices found to exist in the particular bank applying for membership. Such special conditions will, in each case, be made known to the applying bank after its application and accompanying data have been received and reviewed by the Federal Reserve Board, so that the applying bank will have advance knowledge of the special requirements necessary for it to meet before it actually becomes a member bank. In some cases these special conditions will pertain to corrective measures to be accomplished by the applying institution *before* its admission to membership, and in other cases they will cover certain things which the bank would be required to do, or refrain from doing, *after* its admission to membership, each special requirement being based on the particular facts and circumstances incident to the affairs of the particular bank involved. In some cases, of course, no special conditions of membership will be found necessary. In any event, the applying bank will be notified of any special conditions prescribed by the Federal Reserve Board, so that it will have an opportunity to study them and decide whether it cares to accept them.

6. Procedure to be Followed in Applying for Membership.

After studying the foregoing information, if the directors of the interested bank decide to proceed with the matter of applying for membership, they should adopt a resolution in the form outlined on the first page of the printed application blank (Form 83a) and the duly authorized officer should execute the application, together with the Supplemental Statement accompanying it, and forward the following documents to the Federal Reserve Agent, in care of the Federal Reserve Bank of Dallas:

1. Application (Form 83a).
2. Supplemental Information Schedule (Supplement to F.R.B. Form 83a).
3. Copy of bank's charter (articles of incorporation) and all amendments thereto.
4. Copies of letters received (if any) from the State Banking Commissioner, together with the bank's replies thereto, in connection with the *last two* examinations made by the State examiners.

At the same time, the bank should promptly request the State Banking Commissioner to forward to the Federal Reserve Agent at Dallas *two complete copies* of the report of the *latest* examination.

As soon as practicable after receipt of the application and accompanying documents, the Federal Reserve Agent will send an examiner to examine the applying bank. Such examination will be made at the expense of the Federal Reserve Bank of Dallas.

After the examination is made and the examiner's report is received by the Federal Reserve Agent, he will submit it, together with the application papers, to the Federal Reserve Bank's Executive Committee, who will consider the application and promptly transmit it to the Federal Reserve Board in Washington, with the Committee's recommendations with reference to whether the application should be granted. When the Federal Reserve Board acts upon the application, telegraphic advice of its action will be received by the Federal Reserve Agent at Dallas and transmitted by him to the applying bank, together with any Special Conditions of Membership that may be prescribed by the Federal Reserve Board in the event the Board has passed favorably upon the application.

In cases where an application receives the Federal Reserve Board's approval, the applying bank will be notified by the Federal Reserve Agent to have its board of directors adopt a resolution reciting and accepting the General Conditions of Membership, and such Special Conditions (if any) as may have been prescribed by the Federal Reserve Board. When the applicant has adopted and certified the necessary resolution, and

complied with any special conditions requiring action prior to completion of bank's membership, it will, upon depositing with the Federal Reserve Bank the required reserve and payment for its Federal Reserve Bank stock, be issued a stock certificate for the shares to which it is entitled, and thereupon its membership will be complete.

The required stock subscription is 6 per cent of the capital and surplus of the applying bank, but only one-half of the amount subscribed for is to be paid for upon becoming a member of the System, the remaining half of its subscription being subject to call, when deemed necessary, by the Federal Reserve Board.

The required reserve would be 7 per cent of the applying bank's demand deposits (10 per cent in the case of a bank located in a Reserve City) and 3 per cent of its time deposits.

7. Examinations and Reports.

After a State bank becomes a member of the Federal Reserve System it is subject to examinations by Federal Reserve examiners, at the expense of the examined bank, but such examinations are not made more frequently than once a year except when additional examinations are made necessary by some unusual situation.

State member banks are required to render to the Federal Reserve Bank periodical condition reports, semi-annual reports of earnings, expenses and dividends, and current reports of their net demand and time deposit liabilities upon which their reserve requirements are based.

8. Affiliates.

If a State member bank has one or more "affiliates", as defined in the Banking Act of 1933, each such affiliate is subject to examination by Federal Reserve examiners and is required to render to the Federal Reserve Bank periodical reports of its condition on forms prescribed and furnished by the Federal Reserve Board. Such reports, when called for, must be published under the same conditions which govern the publication of the condition reports of the State member bank with which such affiliate is connected.

9. Other Requirements and Privileges.

A State bank, upon joining the Federal Reserve System, retains all of the rights and powers vested in it by its charter and the laws of its State, subject to such restrictions as may be prescribed in the General or Special Conditions of Membership which it accepts at the time of its admission to the System. In those States which are attached to the Eleventh Federal Reserve District, the State laws permit State banks which are members of the Federal Reserve System to substitute the legal reserve requirements of the Federal Reserve System for those prescribed by State laws.

State member banks are required to conform to those provisions of law imposed on National banks which prohibit such banks from lending on or purchasing their own stock and which relate to the withdrawal or impairment of their capital stock and to the payment of unearned dividends.

A State bank may withdraw from membership in the Federal Reserve System at any time by filing with the Federal Reserve Board a six months' notice of its intention to withdraw. The Federal Reserve Board has the power to waive the six months' notice in particular cases when, in its judgment, there are exceptional circumstances which justify such action.

Detailed information concerning the facilities and privileges incident to membership in the Federal Reserve System will be furnished upon request. Inquiries on this subject should be addressed to the undersigned.



Federal Reserve Agent.