

FEDERAL RESERVE BANK  
OF NEW YORK

NEW YORK, August 8, 1917

TO THE PRESIDENT,

SIR:

We enclose the text of the amendments to the Federal Reserve Act approved June 21, 1917, and the Regulations of the Federal Reserve Board issued thereunder, which make important changes in the provisions governing membership of State banks and trust companies in the Federal Reserve System. The general provisions of the law covering such membership are embodied in Section 9 as amended, and appear in the appendix to Regulation "H" on page 24 of the enclosed pamphlet.

Following is a brief summary of rights and powers of member banks :

**RIGHTS AND POWERS.**

Any bank or trust company becoming a member of the Federal Reserve System thereby is entitled to all the rights of a member bank, which include the following:

- (a) To rediscount eligible commercial paper with the Federal reserve bank;
- (b) To receive advances from the Federal reserve bank. for periods not exceeding fifteen days, on the member bank's own promissory note, secured by commercial paper or Government bonds or notes;
- (c) To obtain Federal reserve notes and other currency as needed, from the Federal reserve bank;
- (d) To receive deposits of postal savings and other Government funds;
- (e) To "accept" drafts and bills of exchange based on foreign or domestic commerce, subject to certain conditions, if State charter permits;
- (f) To have checks and drafts drawn upon it received at par by all Federal reserve banks;
- (g) To make its drafts on the Federal reserve bank available for immediate credit at any Federal reserve bank;
- (h) To participate in the check clearing and collection facilities of the Federal Reserve System.

### RESERVES

The amended provisions of the Federal Reserve Act now in effect governing the reserve to be maintained by banks which are members of the Federal Reserve System, are as follows:

Country Banks:

7% of Demand Deposits,  
3% of Time Deposits.

Reserve City Banks:

10% of Demand Deposits,  
3% of Time Deposits.

Central Reserve City Banks:

13% of Demand Deposits,  
3% of Time Deposits.

The entire legal reserve of a member bank is now to be maintained on deposit with the Federal reserve bank, and there is no requirement of law as to the amount or kind of currency to be held by a member bank in its own vault.

### DEPOSITS OF NONMEMBER BANKS AND TRUST COMPANIES FOR CLEARING PURPOSES.

State banks and trust companies which because of the nature of their business or for other reasons do not desire to become members of the Federal Reserve System may enjoy some portion of the facilities of the system, and may also contribute to its strength, through an amendment to Section 16 of the Federal Reserve Act which provides that

"Any Federal reserve bank \* \* \* \* \* solely for the purpose of exchange or of collection, may receive from any nonmember bank, or trust company, deposits of current funds in lawful money, national bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes or bills: PROVIDED such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank \* \* \* \* \*"

The banking laws of the State of New York have also been amended to permit State banks and trust companies to take advantage of the facilities made possible by the above amendment by depositing with the Federal Reserve Bank a portion of their vault reserves.

Under the provisions of the amendment to Section 16 the Federal Reserve Bank of New York is prepared to accept from nonmember banks and trust companies deposits of the kind specified and to extend to them the facilities of its check clearing and collection system. State banks and trust companies which maintain such deposits in addition to obtaining the benefit of the check clearing and collection and transfer service, will also contribute thereby to the strength of the Federal Reserve System and the nation's financial structure.

### ADDITIONAL INFORMATION.

Should you wish any further details concerning the matters dealt with in this circular the officers of the bank will be glad to supply such additional information as may be desired, at your convenience.

Respectfully,

R. H. TREMAN,

*Deputy Governor.*

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**FEDERAL RESERVE ACT**  
**SECTION 9**

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**As amended by act approved June  
21, 1917. (40 Stat., chap. 32).**

**STATE BANKS AS MEMBERS**

## STATE BANKS AS MEMBERS.

### Applications

**Sec. 9.** Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, desiring to become a member of the Federal Reserve System, may make application to the Federal Reserve Board, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. The Federal Reserve Board, subject to such conditions as it may prescribe, may permit the applying bank to become a stockholder of such Federal reserve bank.

In acting upon such applications the Federal Reserve Board shall consider the financial condition of the applying bank, the general character of its management, and whether or not the corporate powers exercised are consistent with the purposes of this act.

Whenever the Federal Reserve Board shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Federal Reserve Board, and stock issued to it shall be held subject to the provisions of this act.

### Require- ments and limitations

All banks admitted to membership under authority of this section shall be required to comply with the reserve and capital requirements of this act and to conform to those provisions of law imposed on national banks which prohibit such banks from lending on or purchasing their own stock, which relate to the withdrawal or impairment of their capital stock, and which relate to the payment of unearned dividends. Such banks and the officers, agents, and employees thereof shall also be subject to the provisions of and to the penalties prescribed by section fifty-two hundred and nine of the Revised Statutes, and shall be required to make reports of condition and of the payment of dividends to the Federal reserve bank of which they become a member. Not less than three of such reports shall be made annually on call of the Federal reserve bank on dates to be fixed by the Federal Reserve Board. Failure to make such reports within ten days after the date they are called for shall subject the offending bank to a penalty of \$100 a day for each day that it fails to transmit such report; such penalty to be collected by the Federal reserve bank by suit or otherwise.

### Reports

### Examina- tions

As a condition of membership such banks shall likewise be subject to examinations made by direction of the Federal

Reserve Board or of the Federal reserve bank by examiners selected or approved by the Federal Reserve Board.

Whenever the directors of the Federal reserve bank shall approve the examinations made by the State authorities, such examinations and the reports thereof may be accepted in lieu of examinations made by examiners selected or approved by the Federal Reserve Board: *Provided, however,* That when it deems it necessary the board may order special examinations by examiners of its own selection and shall in all cases approve the form of the report. The expenses of all examinations, other than those made by State authorities, shall be assessed against and paid by the banks examined.

**Forfeiture of membership**

If at any time it shall appear to the Federal Reserve Board that a member bank has failed to comply with the provisions of this section or the regulations of the Federal Reserve Board made pursuant thereto, 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. The Federal Reserve Board may restore membership upon due proof of compliance with the conditions imposed by this section.

**Withdrawal from membership**

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Federal Reserve Board, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided, however,* That no Federal reserve bank shall, except under express authority of the Federal Reserve Board, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Federal Reserve Board, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal reserve bank it shall be entitled to a refund of its cash paid subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

No applying bank shall be admitted to membership in a

**Capital  
required**

Federal reserve bank unless it possesses a paid-up, unimpaired capital sufficient to entitle it to become a national banking association in the place where it is situated under the provisions of the national-bank act.

**Charter  
powers  
retained.**

Banks becoming members of the Federal Reserve System under authority of this section shall be subject to the provisions of this section and to those of this act which relate specifically to member banks, but shall not be subject to examination under the provisions of the first two paragraphs of section fifty-two hundred and forty of the Revised Statutes as amended by section twenty-one of this act. Subject to the provisions of this act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the State in which it was created, and shall be entitled to all privileges of member banks: *Provided, however,* That no Federal reserve bank shall be permitted to discount for any State bank or trust company notes, drafts, or bills of exchange of any one borrower who is liable for borrowed money to such State bank or trust company in an amount greater than ten per centum of the capital and surplus of such State bank or trust company, but the discount of bills of exchange drawn against actually existing value and the discount of commercial or business paper actually owned by the person negotiating the same shall not be considered as borrowed money within the meaning of this section. The Federal reserve bank, as a condition of the discount of notes, drafts, and bills of exchange for such State bank or trust company, shall require a certificate or guaranty to the effect that the borrower is not liable to such bank in excess of the amount provided by this section, and will not be permitted to become liable in excess of this amount while such notes, drafts, or bills of exchange are under discount with the Federal reserve bank.

**Over certi-  
fication**

It shall be unlawful for any officer, clerk, or agent of any bank admitted to membership under authority of this section to certify any check drawn upon such bank unless the person or company drawing the check has on deposit therewith at the time such check is certified an amount of money equal to the amount specified in such check. Any check so certified by duly authorized officers shall be a good and valid obligation against such bank, but the act of any such officer, clerk, or agent in violation of this section may subject such bank to a forfeiture of its membership in the Federal Reserve System upon hearing by the Federal Reserve Board.