

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 600]
[April 8, 1924.]

Membership of State Banks and Trust Companies

*To all Member Banks in the
Second Federal Reserve District:*

I am enclosing herewith for your information a copy of the Federal Reserve Board's Regulation H, Series of 1924, superseding its Regulation H of 1923, which the Federal Reserve Board has just forwarded to us with the request that we distribute copies to our member banks.

Very truly yours,

BENJ. STRONG,
Governor.

REGULATION H

Series of 1924 (as amended April 7, 1924)

(Superseding Regulation H of 1923.)

MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES

SECTION I. BANKS ELIGIBLE FOR MEMBERSHIP.

1. Incorporation.—In order to be eligible for membership in a Federal Reserve Bank, a State bank or trust company must have been incorporated under a special or general law of the State or district in which it is located.

2. Capital stock.—Under the terms of section 9 of the Federal Reserve Act as amended, no applying bank can be admitted to membership in a Federal Reserve Bank unless—

(a) 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, or

(b) It possesses a paid-up, unimpaired capital of at least 60 per cent of such amount, and, under penalty of loss of membership, complies with the rules and regulations herein prescribed by the Federal Reserve Board fixing the time within which and the method by which the unimpaired capital of such bank shall be increased out of net income to equal the capital required under (a).

In order to become a member of the Federal Reserve System, therefore, any State bank or trust company must have a minimum paid-up capital stock at the time it becomes a member, as follows:

If located in a city or town with a population of—	Minimum capital if admitted under clause (a).	Minimum capital if admitted under clause (b).
Not exceeding 3,000 inhabitants.....	\$25,000	\$15,000
Exceeding 3,000 but not exceeding 6,000 inhabitants.....	50,000	30,000
Exceeding 6,000 but not exceeding 50,000 inhabitants.....	100,000	60,000
Exceeding 50,000 inhabitants.....	200,000	120,000

Any bank admitted to membership under clause (b) must also, as a condition of membership, the violation of which will subject it to expulsion from the Federal Reserve System, increase its paid-up and unimpaired capital within five years after the approval of its application by the Federal Reserve Board to the amount required under (a). For the purpose of providing for such increase, every such bank shall set aside each year in a fund exclusively applicable to such capital increase not less than 50 per cent of its net earnings for the preceding year prior to the payment of dividends, and if such net earnings exceed 12 per cent of the paid-up capital of such bank, then all net earnings in excess of 6 per cent of the paid-up capital shall be carried to such fund, until such fund is large enough to provide for the necessary increase in capital. Whenever such fund shall be large enough to provide for the necessary increase in capital, or at such other time as the Federal Reserve Board may require, such fund or as much thereof as may be necessary shall be converted into capital by a stock dividend or used in any other manner permitted by State law to increase the capital of such bank to the amount required under (a): *Provided, however,* That such bank may be excused in whole or in part from compliance with the terms of this paragraph if it increases its capital through the sale of additional stock: *Provided, further,* That nothing herein contained shall be construed as requiring any such bank to violate any provision of State law, and in any case in which the requirements of this paragraph are inconsistent with the requirements of State law the requirements of this paragraph may be waived and the subject covered by a special condition of membership to be prescribed by the Federal Reserve Board.

SECTION II. APPLICATION FOR MEMBERSHIP.

Any eligible State bank or trust company may make application on F. R. B. Form 83a, made a part of this regulation, to the Federal Reserve Board for an amount of capital stock in the

Federal Reserve Bank of its district equal to 6 per cent of the paid-up capital stock and surplus of such State bank or trust company. This application must be forwarded direct to the Federal Reserve Agent of the district in which the applying bank or trust company is located and must be accompanied by Exhibits I, II, and III, referred to on page 1 of the application blank.

SECTION III. APPROVAL OF APPLICATION.

In passing upon an application the Federal Reserve Board will consider especially—

1. The financial condition of the applying bank or trust company and the general character of its management;
2. Whether the corporate powers exercised by the applying bank or trust company are consistent with the purposes of the Federal Reserve Act; and
3. Whether the laws of the State or district in which the applying bank or trust company is located contain provisions likely to prevent proper compliance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in conformity therewith.

If, in the judgment of the Federal Reserve Board, an applying bank or trust company conforms to all the requirements of the Federal Reserve Act and these regulations, and is otherwise qualified for membership, the Board will issue a certificate of approval subject to such conditions as it may deem necessary. When the conditions imposed by the Board have been accepted by the applying bank or trust company the Board will issue a certificate of approval, whereupon the applying bank or trust company shall make a payment to the Federal Reserve Bank of its district of one-half of the amount of its subscription, i. e., 3 per cent of the amount of its paid-up capital and surplus, and upon receipt of this payment the appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of its subscription shall be subject to call when deemed necessary by the Federal Reserve Board.

SECTION IV. 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 such conditions as it may prescribe,*" 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 or trust company shall not cause or permit any change to be made in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System and required as a condition of membership.
2. Such bank or trust company shall at all times conduct its business and exercise its powers with due regard to the safety of its customers.
3. Such bank or trust company shall not reduce its capital stock except with the permission of the Federal Reserve Board.
4. Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency or additional office.
5. Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.
6. Such bank or trust company shall reduce to, and maintain within, the limits prescribed by the laws of the State in which it is located, any loan which may be in excess of such limits.
7. Such bank or trust company 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.

8. Such bank or trust company 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 or trust company, 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 or trust company.

9. The Board of directors of said bank or trust company shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank or trust company is located and the banking authorities of the State in which such bank is located.

Each bank or trust company applying for membership hereafter will be required to agree to the above conditions and any other conditions which the Board may prescribe, prior to the admission of such bank or trust company to the Federal Reserve System.

SECTION V. PERMISSION NECESSARY PRIOR TO MAKING CHANGES IN ASSETS OR SCOPE OF FUNCTIONS.

Each bank or trust company hereafter admitted to the Federal Reserve System and each bank or trust company which has heretofore been admitted subject to Condition No. 1 of Section IV or subject to any similar condition, shall through the Federal Reserve Agent, request the permission of the Federal Reserve Board prior to taking any action which may result in a change in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve System and required as a condition of membership.

The Board considers that among the actions which may result in changes of the kind referred to in this Section are the establishment of branches, agencies or additional offices and consolidations or mergers with, or purchases of the assets of other banks or branch banks.

SECTION VI. PRINCIPLES GOVERNING ESTABLISHMENT OF BRANCHES.

In passing upon applications by State banks and trust companies for permission to establish branches, agencies or additional offices, under Condition No. 4 of Section IV, or under any similar condition which may have been prescribed by the Federal Reserve Board and agreed to by any bank or trust company heretofore admitted to the Federal Reserve System, the Federal Reserve Board will observe the following principles—

1. The Federal Reserve Board will as a general principle restrict the establishment of branches, agencies or additional offices by such banks or trust companies to the city of location of the parent bank and the territorial area within the state contiguous thereto, as said territory has been defined in the Board's resolution of November 7, 1923, ⁽¹⁾ excepting in instances where the State banking authorities have certified and the Board finds that public necessity and advantage render a departure from the principle necessary or desirable.

2. The Federal Reserve Board as a general principle will not consider an application by such bank or trust company for a permit to establish a branch, agency, or additional office, unless the authorities of the State in which such bank is located regularly make simultaneous examinations of the head office and all branches, agencies or additional offices of such bank, nor unless the examinations made by the State authorities are, in the judgment of the Federal Reserve Board, of such character in every respect as to furnish the Federal Reserve Board with sufficient information as to the condition of such bank and the character of its management to enable the Federal Reserve Board fully to protect the interests of the public.

1. The term "contiguous territory" is defined in the Board's resolution of November 7, 1923, to mean: "The territory of a city or town whose corporate limits at some point coincide with the corporate limits of the city or town in which the parent bank is located."

3. The Federal Reserve Board as a general principle will require each bank or trust company which establishes or maintains branches, agencies or additional offices to maintain for itself and such branches, agencies or additional offices an adequate ratio of capital to total liabilities and an adequate percentage of its total investments in the form of paper or securities eligible for discount or purchase by Federal reserve banks.

4. The Federal Reserve Board will not consider any application to establish a branch, agency or additional office until the State banking authorities have approved the establishment of such branch, agency or additional office, and the Directors or Executive Committee and the Federal Reserve Agent of the Federal Reserve Bank of the district in which such bank or trust company is located have made a report upon the financial condition of the applying bank or trust company, the general character of its management, what effect the establishment of such branch, agency or additional office would have upon other banks or branches in the locality in which it is to be established, and whether, in their opinion, it would be in the interest of the public in such locality, together with their recommendation as to whether or not the application should be granted.

5. When permission is granted for the establishment of such branch, agency or additional office same shall be established and opened for business within six months after such permission is granted. If such branch, agency, or additional office is not established within such time the permit shall become void, unless the time is extended by the Board for good cause.

6. The Federal Reserve Board reserves the right to cancel any permit which it may grant hereafter to establish any branch, agency or additional office whenever it shall appear, after hearing, that such branch, agency or additional office, is being operated in a manner contrary to the interest of the public in the locality in which it is established.

SECTION VII. POWERS AND RESTRICTIONS.

Every State bank or trust company while a member of the Federal Reserve System—

1. Shall retain its full charter and statutory rights as a State bank or trust company, subject to the provisions of the Federal Reserve Act, to the regulations of the Federal Reserve Board, "and to the conditions prescribed by the Federal Reserve Board and agreed to by such State bank or trust company prior to its admission."

2. Shall maintain such improvements and changes in its banking practice as may have been specifically required of it by the Federal Reserve Board as a condition of its admission and shall not lower the standard of banking then required of it;

3. Shall enjoy all the privileges and observe all those requirements of the Federal Reserve Act and of the regulations of the Federal Reserve Board made in conformity therewith which are applicable to State banks and trust companies which have become member banks; and

4. Shall comply at all times with any and all conditions of membership prescribed by the Federal Reserve Board at the time of the admission of such member bank to the Federal Reserve System.

SECTION VIII. EXAMINATIONS AND REPORTS.

Every State bank or trust company, while a member of the Federal Reserve System, shall 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.

In order to avoid duplication, examinations of State banks and trust companies made by State authorities will be accepted in lieu of examinations by examiners selected or approved by the Board wherever these are satisfactory to the directors of the Federal Reserve Bank, and examiners from the staff of the Board or of the Federal Reserve Banks will, whenever desirable, be designated by the Board to act with the examination staff of the State in order that uniformity in the standard of examination may be assured.

Every State bank or trust company, while a member of the Federal Reserve System, shall be required to make in each year not less than three reports of condition on F. R. B. Form 105. Such reports shall be made to the Federal Reserve Bank of its district on call of such bank, on dates to be fixed by the Federal Reserve Board. They shall also make semiannual reports of earnings and dividends on F. R. B. Form 107. As dividends may be declared from time to time, each State bank or trust company member shall also furnish to the Federal Reserve Bank of its district a special notification of dividend declared on F. R. B. Form 107a. F. R. B. Forms 105, 107, and 107a are made a part of this regulation.