

FEDERAL RESERVE BOARD

WASHINGTON

X-3238

November 7, 1921.

SUBJECT: Applications for Membership by Newly Organized National Banks.

Dear Sir:

There is enclosed herewith for your information a copy of a letter which the Board recently addressed to the Comptroller of the Currency suggesting that the Comptroller make it a condition precedent to permitting newly organized national banks to open for business that they subscribe to and pay for the prescribed amount of stock in the Federal Reserve Bank. There is enclosed also a copy of the Comptroller's reply. You will observe that the Comptroller has accepted the Board's suggestion and has agreed to follow substantially the procedure outlined in the Board's letter. This requirement, however, is inapplicable to State member banks converting into national banks, since they are already members of the System and it is not necessary for them to make new applications for membership.

You are requested to forward all such applications to the Board as promptly as possible and to advise the Board by telegraph as soon as the necessary payments are received, in order to avoid the possibility of this practice resulting in any unnecessary delay in the granting of the Comptroller's authority for newly organized national banks to open for business.

You are also requested to comply with the suggestion contained in the last paragraph of the Comptroller's letter. In order to carry out these suggestions, the Board will make its approval of all such applications of newly organized national banks conditional on the issuance of the Comptroller's certificate of authority to commence business. The procedure, therefore, will be as follows:

1. Upon receipt of an application of a newly organized national bank, the Board will approve it, effective if and when the Comptroller issues his certificate of authority to commence business.
2. Thereupon the national bank will make the necessary cash payment to the Federal Reserve Bank and the Federal Reserve Bank will issue a receipt therefor, placing the amount in a suspense account and wiring the Board that such payment has been received.
3. When all other requirements have been complied with the Comptroller will issue his certificate of authority to commence business.
4. Thereupon the Federal Reserve Bank will issue a stock certificate to the national bank. The capital stock of the Federal Reserve Bank should be considered issued as of the date upon which the Comptroller issues his certificate of authority to commence business, and the quarterly certificates made by Federal Reserve Banks to the Comptroller on FRB Form 58 required by Section 5 of the Federal Reserve Act and paragraph 5 of Part I of Regulation I, Series of 1920, should not show as increases of the capital stock of Federal Reserve Banks payments made by newly organized national banks to which certificates of authority to commence business have not yet been issued.

Very truly yours,

(Enclosures)

G o v e r n o r .

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.

C O P Y

TREASURY DEPARTMENT

Washington

November 2, 1921.

X-3238a

Office of
Comptroller of the Currency

Hon. W. P. G. Harding,
Governor, Federal Reserve Board,
Washington, D. C.

My dear Governor:

In compliance with request contained in your letter of October 26, I wish to advise you that on October 29 a letter, (copy of which is attached) was sent to the organizers in all cases where an application has been approved to organize a national bank, and to the representatives of state banks in all cases where the application has been approved to convert a state bank into a national bank, advising that it would be necessary for them to subscribe and pay for their stock in the Federal Reserve Bank of their district before the Comptroller would issue his certificate authorizing the commencement of business as a national bank.

It is requested that the Federal Reserve Banks be directed to act very promptly in these matters so as not to delay the issuance of certificate after all other conditions have been complied with.

The Federal Reserve Banks should be directed from your office to carry the amount paid in on account of this capital stock in a suspense account and not in the capital stock account until such time as certificate is issued by the Comptroller authorizing the commencement of business as a national bank. The certificate covering payment of capital stock which the Federal Reserve Bank is required to make to the Comptroller of the Currency under provisions of Section 5 of the Federal Reserve Act, should not be executed until after advice of the issuance of the Comptroller's certificate authorizing the commencement of business has been received, it being possible that the Comptroller might see fit to deny the association the right to commence business owing to a change in conditions.

Very truly yours,

(Signed) D. R. Crissinger, Jr.

Incl.

Comptroller

X-3238b

On _____ the application signed by you and others to organize The _____ National Bank was approved and all papers were furnished, together with full instructions as to their execution.

You are now advised that before the Comptroller will issue his certificate authorizing the commencement of business as a national bank, it will be necessary for you to subscribe to capital stock in the Federal Reserve Bank of _____ in an amount at least equal to 6 per cent of the amount of the capital and surplus of your bank, which will be paid in at the time you open for business. It will also be necessary for you to pay to said Federal Reserve Bank an amount equal to one-half of your subscription.

In order to avoid the necessity of making applications for additional stock in the Federal Reserve Bank, as additional installments of your capital stock are paid in, you may, if you desire, apply to the Federal Reserve Bank for stock in an amount equal to 6 per cent of your authorized capital stock plus 6 per cent of the amount of surplus, if any, which the subscribers to your capital stock have agreed to pay in.

You will find inclosed three blank applications for stock in the Federal Reserve Bank of _____. A meeting of the directors should be called and a resolution adopted as provided in this form authorizing the President or Vice-President and Cashier to apply for such stock. This application should be executed in triplicate, one copy to be retained for your files and two copies to be forwarded to the Federal Reserve Bank for transmission to the Federal Reserve Board. When this application has been approved by the Federal Reserve Board, you will be notified, whereupon you should immediately remit one-half of the amount of your subscription in cash to the Federal Reserve Bank in part payment for your stock.

C O P Y

October 26, 1921.

X-3238c

Hon. D. R. Crissinger,
Comptroller of the Currency,
Washington, D.C.

My dear Mr. Comptroller:

On or about July 14, 1920, the office of the Comptroller of the Currency, upon the suggestion of the Federal Reserve Board, agreed informally to make it a condition precedent to permitting a national bank to open for business that it subscribe for and pay in the amount of stock in the Federal reserve bank prescribed by law. It recently has come to the attention of the Federal Reserve Board, however, that such practice was never put into effect in the Comptroller's office and the Board desires to renew the suggestion.

The necessity for such a requirement was illustrated by the case of the Pulcher National Bank of Pulcher, Oklahoma, which opened for business on March 8, 1920, but which, although repeatedly requested to do so, did not make application for stock in the Federal Reserve Bank of Kansas City until about July 1, 1920, and finally failed, on or about July 14, 1920, without ever maintaining any reserves with the Federal reserve bank. In other words, it received deposits during the whole of its brief existence, without ever maintaining any legal reserves whatsoever. It is clear that the recurrence of such an incident should be prevented if possible.

Section 2 of the Federal Reserve Act expressly requires all national banks organized at the time the Act was approved to join the Federal Reserve System, but it is silent as to national banks organized since the passage of the Act. There can be no question, however, that the law contemplates that such banks must become member banks upon their organization. This is implied not only by the provisions in Section 2 with regard to existing national banks but also by the provision in Section 19 to the effect that national banks located in Alaska and in the insular possessions of the United States may remain nonmember banks. It would seem, therefore, that every national bank organized subsequent to the organization of the Federal Reserve System and located in the continental United States should be a member of the Federal Reserve System when it opens its doors for business.

Section 5169 of the Revised Statutes provides that -

"If, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Comptroller, whether by means of a special commission appointed by him for the purpose of inquiring into the condition of such

association, or otherwise, it appears that such association is lawfully entitled to commence the business of banking, the Comptroller shall give to such association a certificate, under his hand and official seal, that such association has complied with all the provisions required to be complied with before commencing the business of banking, and that such association is authorized to commence such business. But the Comptroller may withhold from an association, his certificate authorizing the commencement of business, whenever he has reason to suppose that the shareholders have formed the same for any other than the legitimate objects contemplated by this title."

Inasmuch as the Federal Reserve Act clearly contemplates that every national bank in the continental United States shall be a member of the Federal Reserve System, it would seem that the Comptroller of the Currency has authority under that Section to withhold his certificate of authority to commence business until each newly organized national bank has subscribed to and paid for the capital stock of the Federal Reserve Bank of the district in which it is located.

It is suggested, therefore, that the Comptroller of the Currency require each newly organized national bank located in the continental United States to subscribe for and pay in the prescribed amount of stock in the Federal reserve bank of its district before he issues a certificate of authority for it to commence business. In order to attain this result the following procedure is suggested:

- (1) That the Comptroller's office forward, with the usual blank forms for use in connection with the organization of a national bank, three copies of Federal Reserve Board Form No. 30, which is the Board's form of application for stock in a Federal reserve bank.
- (2) That the organizers of the new national bank be instructed to have such application executed in triplicate at the same meeting at which the organization certificate is executed, retaining one copy for the files of the bank and forwarding the other two copies to the Federal reserve bank of the district in which the new national bank will be located.
- (3) That the Federal reserve bank attach its recommendation and forward such application promptly to the Federal Reserve Board.
- (4) That the Board approve the application promptly and notify the Federal reserve bank and the Comptroller of the Currency.
- (5) That at or before the time when the new national bank executes its certificate of payment of capital stock and of compliance with legal requirements it should remit the amount of its subscription to the Federal reserve bank.

(6) That the Federal reserve bank notify the Federal Reserve Board promptly of the receipt of such remittance and the Federal Reserve Board immediately notify the Comptroller.

(7) That the Comptroller withhold his certificate of authority to commence business until he has been notified by the Federal Reserve Board that the national bank has subscribed to and paid for stock in the Federal reserve bank.

Inasmuch as the corporate existence of a national bank begins as soon as the articles of incorporation and organization certificate have been executed, and it, thereupon, has power to transact such business as is "incidental and necessarily preliminary to its organization," (Sec. 5136, R. S.) and inasmuch as every national bank ought to be a member of the Federal Reserve System at the time it opens for business, it seems clear that it has authority to subscribe and pay for stock in the Federal reserve bank as soon as its organization certificate is executed.

With reference to the amount of capital stock in the Federal reserve bank which a newly organized national bank should apply for, it would seem that, inasmuch as the Federal Reserve Act requires banks applying for membership to subscribe to the capital stock of the Federal reserve bank "in a sum equal to six per centum of the paid-up capital stock and surplus of such bank", it should subscribe for an amount equal to six per centum of the amount of capital stock and surplus, which it is contemplated will be paid in at the time it opens for business. Applications for additional stock can then be made as additional capital is paid in and as the surplus is increased. For the convenience of the subscribing banks and in order to avoid a multiplicity of applications, the Federal Reserve Board has accepted, and will continue to accept, applications by newly organized national banks for an amount of Federal reserve bank stock equal to six per centum of the full amount of the capital and surplus which the subscribing bank will have after all of its capital stock has been paid in at the subscription price.

Very truly yours,

W. P. G. Harding,

G o v e r n o r .

WW:B