

FEDERAL RESERVE BOARD

WASHINGTON

X-4454

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

November 18, 1925.

SUBJECT: Termination of Membership by Withdrawing Member Bank.

Dear Sir:

The Federal Reserve Board has been requested to rule upon the question whether a State member bank which has given six months' notice of its intention to withdraw from the System, but fails to withdraw immediately at the end of the six months' period is entitled to interest at the rate of one-half of 1% per month from the date of the last dividend to the date upon which its Federal reserve bank stock is actually surrendered or merely up to the date on which the six months' period expired.

As the Board has stated in connection with other rulings on similar questions, notice of intention to withdraw is a prerequisite of withdrawal from the System but is not any part of the actual withdrawal itself. At the termination of the six months' period following notice of withdrawal a State member bank does not automatically cease to be a member of the Federal Reserve System. A bank which has given such notice but has not acted pursuant thereto, continues to be a member of the Federal Reserve System for all purposes and is entitled to the privileges and is subject to the obligations of membership in the System. A state member bank, therefore, which has given notice of its intention to withdraw but does not consummate the withdrawal at the termination of the six months' period by surrendering its Federal reserve bank stock must continue to maintain the reserves regularly required by the Federal Reserve Act, and when it does withdraw from the System by surrendering its Federal reserve bank stock it is entitled to interest at the rate of one-half of 1% per month from the date of the last dividend, if earned, to the date on which the stock is surrendered and membership is terminated.

In order to be entirely accurate it should also be stated that the amount refunded is in no event to exceed the book value of the stock at the time, but this requirement is of little practical importance under present conditions.

As explained in the Board's letter of September 20, 1923, X-3841, a notice of withdrawal does not remain effective indefinitely but only for a reasonable time after the expiration of the six months'

period. In all cases of this kind arising hereafter the Board will consider two months as a reasonable time for the consummation of withdrawal after the six months' period has expired; so that if the stock is not surrendered within eight months from the date upon which notice of intention to withdraw is received, the notice becomes void and a new notice will be required before a voluntary withdrawal will be permitted. If the circumstances are unusual and seem to require a longer period for the withdrawal, the Board will consider an extension of time provided that application for such extension is received by the Board within the two months' limit. You are requested to bring this matter to the attention of all banks which have notices of withdrawal now pending and in the future to advise any bank from which a notice of withdrawal is received of the Board's ruling as to the time permitted for withdrawal.

By order of the Federal Reserve Board.

Very truly yours,

Walter L. Eddy,
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.