

REGULATION H, SERIES OF 1927  
(Superseding Regulation H of 1924)  
MEMBERSHIP OF STATE BANKS AND TRUST COMPANIES  
(As Tentatively Approved by Federal  
Reserve Board on June 21, 1927.)

SECTION I. BANKS ELIGIBLE FOR MEMBERSHIP

(a) 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.

(b) 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	Minimum	Minimum
	capital	capital
	if admitted under	if admitted under
	clause (a)	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(except as stated below):	200,000	120,000
In an outlying district (*) of a city with a population exceeding 50,000 inhabitants; provided State law permits organization of State banks in such location with a capital of \$100,000 or less.....	100,000	60,000

(\*) The term "outlying district" is construed to mean that portion of a city which is located outside of, and at a considerable distance from, the recognized business and financial center of such city, and includes all suburban districts.

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.

(c) Branches. - In order to be eligible for membership in a Federal reserve bank, a State bank or trust company must relinquish any branch or branches established by it after February 25, 1927, beyond the corporate limits of the city, town or village in which the parent bank is situated.

## 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 approve the application subject to <sup>such</sup> conditions as it may prescribe pursuant to the provisions of the Federal reserve act. 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 the provisions of this Act and to such conditions as it may prescribe pursuant thereto", 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 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.

(4) 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.

(5) 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.

(6) 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 pursuant to the provisions of the Federal reserve act 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 consolidations or mergers with, or purchases of the assets of other banks or branch banks.

#### SECTION VI. ESTABLISHMENT OR MAINTENANCE OF BRANCHES.

Every State bank which is, or hereafter becomes, a member of the Federal Reserve System will be required to comply strictly with the following provision of Section 9 of the Federal Reserve Act as amended by the Act of February 25, 1927:

Any such State bank which, at the date of the approval of this Act, has established and is operating a branch or branches in conformity with the State law, may retain and operate the same while remaining or upon becoming a stockholder of such Federal reserve bank; but no such State bank may retain or acquire stock in a Federal reserve bank except upon relinquishment of any branch or branches established after the date of the approval of this Act beyond the limits of the city, town, or village in which the parent bank is situated.

This has been interpreted to mean that:

1. Any State member bank which, on February 25, 1927, had established and was actually operating a branch or branches in conformity with the State law is permitted to retain and operate the same while remaining a member of the Federal Reserve System, regardless of the location of such branch or branches.

2. Any nonmember State bank which, on February 25, 1927, had established

and was actually operating a branch or branches in conformity with State law may, if otherwise eligible, become a member of the Federal Reserve System and retain and operate such branches, regardless of their location.

3. In order to remain a member of the Federal Reserve System, every State member bank must relinquish any branch or branches established after February 25, 1927, beyond the corporate limits of the city, town or village in which the parent bank is situated.

4. Any State member bank which establishes any branch or branches after February 25, 1927, beyond the corporate limits of the city, town or village in which the parent bank is situated must either (a) relinquish such branch or branches or (b) forfeit all rights and privileges of membership and surrender its stock in the Federal reserve bank.

5. No State bank which has established any branches subsequent to February 25, 1927, beyond the corporate limits of the city, town or village in which the parent bank is situated may become a member of the Federal Reserve System except upon relinquishment of every such branch.

6. State member banks may establish branches within the corporate limits of the city, town or village in which the parent bank is situated without obtaining permission of the Federal Reserve Board.

#### 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.

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. F. R. B. Forms 105 and 107 are made a part of this regulation.