

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-6646

June 27, 1930.

SUBJECT: Condition of Membership re Purchase of Bank Stocks.

Dear Sir:

For some time past the Federal Reserve Board has had under consideration the advisability of a revision of condition of membership No. 3 contained in Section IV of Regulation "H", which at present requires the Board's permission before any stock of banks or trust companies may be purchased by a member bank subject to the condition. The condition as it stands has caused some irritation among member banks by reason of the fact that they must apply to the Board for permission to purchase small amounts of bank stocks, and the Board would like to relieve the member banks of this irritation as well as itself of the seemingly unnecessary burden of acting upon such applications.

It appears desirable, however, that in the revision of the condition of membership some measure of control should be retained over the development of group or chain banking in member banks, and there has been prepared for consideration by the Board a revision of the condition which would prohibit a member bank from acquiring, except with the Board's permission, a controlling interest in any other bank or trust company and also prohibit investment by a member bank, subject to the condition, of more than a stated proportion of its own capital and surplus in stocks of other banks or trust companies generally. This proposed revision reads:

"(3) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not acquire more than 50 per cent of the capital stock of any other bank or trust company; and, except with the Board's permission, its total investments in the stock of other banks and trust companies shall not exceed 20 per cent of its own capital stock and surplus."

While technically a controlling interest of a corporation is any amount of stock in excess of 50% of its capital

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stock, as a practical matter a corporation may in many instances be actually controlled by the ownership of less than 50% of its capital stock and it may, therefore, be desirable to require permission of the Board prior to the purchase of stock in another bank to an extent less than 50% of the capital stock of that bank, i. e., 25%, 20% or even 15%. In this connection, the condition of membership which is now being revised, as it appeared in the Board's Regulation "H", Series of 1924, placed this limitation at 20%. Furthermore, the lower limitation would meet another purpose of the proposed revision of the condition in that it would relieve member banks of the necessity of applying for permission to purchase small amounts of stock in other institutions.

Before taking action in the matter, the Board would appreciate receiving from you an expression of your views as to the advisability of revising the condition of membership, and if you think a change is desirable, as to at what percentage the limitation on the purchase of stock of other banks, without the Board's permission, should be placed. It would also like to have your reaction to the proposed limitation on the aggregate amount of its own capital and surplus which a member bank, subject to the condition, may invest in stock of other institutions.

Very truly yours,

E. M. McClelland,
Assistant Secretary.

TO ALL GOVERNORS AND FEDERAL RESERVE AGENTS.