

## FEDERAL RESERVE BOARD

WASHINGTON

X-7469

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

June 30, 1933.

SUBJECT: Condition of Membership - relation of  
bank's capital and surplus to deposit  
liabilities.

Dear Sir:

In addition to the 14 conditions contained in the Board's letter of March 11, 1933 (X-7356), and such special conditions as may be desirable in a particular case, the Board now prescribes for each bank applying for membership in the Federal Reserve System the following condition numbered 15:

- "15. Such bank shall maintain an amount of paid-up and unimpaired capital and unimpaired surplus which, in the judgment of the Federal Reserve Board, will be adequate in relation to its total deposit liabilities, having due regard to the general principle that a bank's capital and surplus ordinarily should not be less than one-tenth of the average amount of its aggregate deposit liabilities and, in some circumstances, should be more than one-tenth of such amount."

Hereafter in giving you telegraphic advice of approval of an application for membership by a State bank the word "ANCHORIVETED" following the name of the applicant will be used instead of "ANCHORIVET" and will mean:

"Application of such bank for membership has been approved by Board subject to first 14 conditions set forth in Board's letter of March 11, 1933 (X-7356), condition numbered 15 set forth in Board's letter of June 30, 1933 (X-7469), and special conditions stated

"hereafter. Please advise such bank of Board's approval and conditions of membership prescribed, together with explanation thereof contained in Board's letter (X-7356). Letter containing detailed advice regarding such approval will be forwarded bank through you as soon as possible. When you have received certified copy of resolution of board of directors of such bank accepting conditions of membership prescribed by Board, together with advice of compliance with any special conditions to be complied with prior to admission to membership, the Federal reserve bank is authorized upon payment therefor to issue appropriate amount of Federal reserve bank stock and to accept required reserves. Please advise Board date upon which membership of bank becomes effective and amount of Federal reserve bank stock issued to it, forwarding copy of resolution accepting conditions of membership and advising of compliance with any conditions to be complied with prior to admission."

Such a telegram will also contain the code word "ANCHOROME"

which will mean:

"In connection with condition numbered fifteen above and in the absence of any special action by the Board, if in any period of twelve months ending on the 30th day of November the average amount of deposit liabilities of the bank during such period, as determined on the basis of reports made by the bank to the Federal reserve bank for the purpose of computing its required reserve, exceeds ten times the aggregate amount of the bank's paid-up and unimpaired capital stock and unimpaired surplus, the Board will expect that such bank, as soon as possible and within the next succeeding six months, will increase the aggregate amount of its paid-up and unimpaired capital and unimpaired surplus to an amount at least equal to 10% of the average amount of its deposit liabilities during such twelve months."

It is contemplated that when you receive telegraphic advice from the Board of approval of a bank's application you will call specific attention to the above comments in connection with condition number 15 when you submit to the bank for consideration and

acceptance the conditions prescribed by the Board. The comments above referred to will be included also in the letter addressed to the applicant bank containing the conditions of membership.

Whenever an examination is made of a State member bank the Federal reserve examiner should consider whether the relation of the bank's capital and surplus to its deposit liabilities conforms substantially to the principle expressed in condition number 15. While, of course, member banks which have not accepted condition number 15 are not subject to its requirements, the Board feels that it would be proper for the examiner or your office to suggest to any member bank which does not appear to have an adequate amount of capital and surplus the desirability, as a matter of good banking practice, of conforming to the principle laid down in the condition. In the case of any bank subject to condition number 15, where it appears that the relation of its capital and surplus to deposit liabilities does not meet the requirements of that condition, the examiner or your office should request the bank to give prompt consideration to compliance with such requirements.

In addition, the Board desires your office to determine annually by reference to the reserve reports of State member banks subject to condition number 15 whether each such bank in your district is complying with the requirements of that condition.

While you will note that the Board expects each bank subject to condition number 15 to comply with its provisions without any

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special action by the Board, the Board will in special circumstances and upon your specific recommendation consider whether in view of all the facts involved in the particular case it will be justified in not requiring the bank to increase its capital and surplus to an amount at least equal to one-tenth of its deposit liabilities, or whether, on the other hand, a larger proportion of capital and surplus should be required in order to afford adequate protection because of special conditions in the particular bank under consideration.

In the future, when the three conditions relating to the exercise of trust powers by an applicant bank, referred to in the Board's letter of March 11, 1933 (X-7356), are prescribed, such conditions will be referred to in the telegram as conditions numbered 16, 17 and 18, instead of 15, 16 and 17.

Very truly yours,

Chester Morrill,  
Secretary.

LETTER TO ALL FEDERAL RESERVE AGENTS.