

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7549

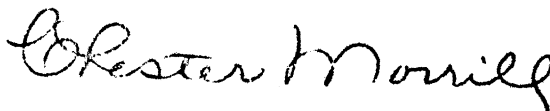
August 14, 1933.

Dear Sir:

The Federal Reserve Board had occasion recently to consider an application for membership in the Federal Reserve System filed by a state bank which had obtained agreements from depositors under which twenty-five per cent of their deposits were assigned to the bank, in return for which the bank delivered to each depositor making such assignment a deferred certificate of deposit to be retired out of the earnings of the bank, the certificate to have priority over the claims of shareholders upon liquidation of the bank.

A copy of the letter addressed by the Board to the Federal reserve agent, advising that it would not be justified in approving the application for membership, is inclosed, for your information.

Very truly yours,



Chester Morrill,
Secretary.

(Inclosure)

To all Federal reserve agents.

August 14, 1933.

Mr. _____,
Federal Reserve Agent,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

Receipt is acknowledged of your letter of June 28, 1933, forwarding an application of the _____ State Bank, _____, _____, for membership in the Federal Reserve System, together with a report of examination made by a Federal reserve examiner as of May 16, 1933, and relative data.

From the information submitted it appears that on December 31, 1932, the applicant bank obtained agreements from the depositors whereby 25% of their deposits were assigned to the bank and used, together with a 25% assessment on the stockholders, to eliminate criticized assets, and whereby the time of payment of the remaining 75% of their deposits was deferred until the board of directors of the bank deemed it proper to release such deposits. The restrictions on the 75% of the deposits apparently have been removed, as evidenced by a certified copy of the resolution passed by the board of directors of the bank on June 28, 1933. However, in connection with the 25% of deposits assigned to the bank and used to eliminate criticized assets, it is noted that the bank delivered to each depositor making such assignment a deferred certificate of deposit to be retired out of the earnings of the bank, and these certificates have priority over the claims of stockholders upon liquidation of the bank. It is apparent, therefore, that the institution has a liability

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for the payment of these deferred deposits which is not reflected in its books and in its statements. Such liability for the payment of such deferred deposits out of future earnings of the bank would be a serious handicap to the future of the institution, and the liability upon liquidation of the bank to retire these certificates before any distribution to stockholders is sufficient to eliminate substantially all of the capital, surplus and undivided profits of the bank. In this connection, your attention is called to the fact that under the provisions of Section 9 of the Federal Reserve Act, as amended, an applying bank must have an unimpaired capital in order to be eligible for membership in the Federal Reserve System. Your attention is also called to the Board's letter of June 20, 1933, (X-7455), with inclosures, in which circumstances comparable to those here involved were discussed in connection with the reduction of capital of national banks.

In these circumstances, the Board would not be justified in approving the application of the _____ State Bank for membership at this time, and the Board feels that the application should be deferred until the bank is released from the liability for payment of deferred deposits or the impairment in its capital is otherwise eliminated and provision is made for the payment of such deferred deposits, the general character of its assets has been improved materially, and, since the restrictions on the withdrawal of 75% of the deposits have been removed only recently, the public's reaction toward the institution and the possibility for successful operation can be determined more

definitely. It is requested, therefore, that you communicate with the bank and suggest the withdrawal of its application from further consideration at this time, in which event, although the application itself and the accompanying papers will remain a part of the Board's files, no adverse action thereon will be taken. If at a later time you feel that the Board would be justified in considering the matter again, there should be a new application and a new examination as a basis for your recommendation.

There is inclosed for your confidential information, a copy of a memorandum prepared in connection with the bank's application by the Division of Examinations of the Federal Reserve Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.