

FEDERAL RESERVE BOARD

158

WASHINGTON

X-7556

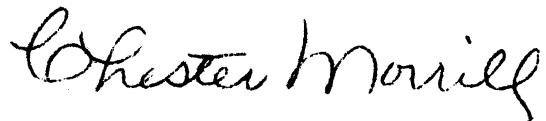
ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

August 21, 1933.

Dear Sir:

There is inclosed herewith, for your information, a copy of a letter addressed by the Board to the Federal Reserve Agent at Chicago with regard to the consideration of applications for membership received from State banks which have been reorganized on the basis of plans involving a partial waiver of deposits.

Very truly yours,



Chester Morrill,
Secretary.

(Inclosure)

TO ALL F. R. AGENTS EXCEPT CHICAGO.

C O P Y

X-7556-a

August 21, 1933.

Mr. Eugene M. Stevens,
Federal Reserve Agent,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

The Board has received your letters of July 13 and July 31, 1933, with regard to the policy which should be followed in the consideration of applications for membership received from State banks which have been reorganized, with the approval of the State banking department, on the basis of plans involving a partial waiver of deposits, such plans of reorganization giving evidence that the shareholders have forced the depositors to bear the burden of the reorganizations and themselves have not made proper contributions toward rehabilitating the banks. The Board notes that such banks, after reorganization, may be in a position technically to qualify for membership but that you have grave doubts of the continuing confidence of the community in banks which have forced their depositors into reorganizations of this kind and of the future success of such banks, particularly where the management remains unchanged, and that such procedure is at variance with the reorganization policy of the Federal Reserve Bank of Chicago which requires the shareholders first to bear the burden of correction. It is also noted that your general experience over the past ten years with many such banks is that they have been unable to survive, and you inquire whether the general policy which you are following of asking such banks to defer their applications until such time as the possibility of their successful operation can be determined to your satisfaction is in conflict with the rights of the banks asking for membership.

Under the provisions of the Federal Reserve Act, as you know, the Federal Reserve Board is specifically required to consider the financial condition and the character of the management of each bank applying for membership in the Federal Reserve System. Accordingly, in each such case, the Board gives careful consideration to all factors which may affect the financial condition of the applying bank. As it is apparent that the manner in which an existing bank is reorganized may have a decided bearing on the condition of the institution which should be taken into account in connection with an application by such bank for membership, full information should be obtained with regard to the manner in which such reorganization was effected, and careful consideration given to its possible effect on the condition of the bank and the institution's ability to maintain a sound financial condition in the future.

The Board feels that when, after a careful consideration of all the facts involved, the Federal reserve agent is of the opinion in any case that there is grave doubt as to the ability of the applying bank to maintain a sound condition on account of inequities in the plan of its reorganization, or for any other reason, he is fully justified in suggesting that the application for membership be deferred until it can be determined more definitely whether the bank will be able to maintain a sound condition or until appropriate action has been taken to correct the inequities. Of course, if in any such case the applicant bank requests that its application be submitted to the Federal Reserve Board, the Board will be glad to consider the application upon receipt of full information as to all the facts in the case and the recommendation of the

Federal reserve agent, together with that of the Committee of his bank, as to the action which should be taken.

In all of these cases, whether submitted to the Board or not, careful inquiry should be made into the plan of reorganization for the purpose of determining whether, under such plan, the shareholders have been or will be released from any obligation to correct the condition of the bank, the reasons for any such release, whether the management has made full effort to conserve the interests of the depositors, the attitude of the community toward the reorganized institution, the character of the institution's management and whether any changes should have been made therein, the need for the institution in the community and whether the possibilities for its future growth and ability to survive are favorable. In this connection, in any case where the reorganization has not resulted in a change in the management, careful consideration should be given to the responsibility of the management for the condition of the bank which required its reorganization, and a statement which establishes a clear justification for the continuance of such management from the standpoint of the welfare of the institution must be furnished.

There may be some instances where the depositors will benefit through a reorganization of the type mentioned where the shareholders' liability is uncollectible and the liquidation of the institution through receivership proceedings would entail a greater loss than through a waiver of deposits. However, the Board feels that, in the absence of special circumstances, it would not be justified in admitting a bank to membership on the basis of a reorganization plan under which

the shareholders evidently have not assumed a reasonable share of the burden of correcting the bank's unsatisfactory condition and particularly where the management responsible for the bank's unsatisfactory condition remains unchanged, until the bank has demonstrated that it is in sound condition and that it has the confidence of the community.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.