

## INTERPRETATION OF BANKING ACT OF 1933.

(Copies to be sent to all Federal reserve banks)

October 21, 1933.

Mr. John N. Peyton,  
Federal Reserve Agent,  
Federal Reserve Bank of Minneapolis,  
Minneapolis, Minnesota.

Dear Mr. Peyton:

Receipt is acknowledged of your letter of October 5, 1933, and inclosures thereto, from which it appears that the State Bank of \_\_\_\_\_, \_\_\_\_\_, has applied for membership in the Federal Reserve System; that a serious question has been raised as to whether the bank is legally a corporation or not; and that it has been suggested that, in order to eliminate all doubt on this question, it should obtain a new charter. In view of the fact that such new charter would be obtained after June 16, 1933, however, the question arises whether it would be necessary for the bank to have a capital of at least \$50,000 in order to be eligible for membership or whether it might be admitted to membership with a capital of \$25,000, in view of the fact that \_\_\_\_\_, \_\_\_\_\_, has a population of only 1700 inhabitants.

As you were advised in the Board's letter of July 22, 1933, (X-7521) a State bank organized on or after June 16, 1933, in a place with a population of not more than 3,000 inhabitants is required to have a capital of \$50,000, in order to be eligible for membership in the Federal Reserve System, unless it is at the time entitled to the benefits of insurance under Section 12B of the Federal Reserve Act, in which event it is eligible for membership if it has a capital of not less than \$25,000.

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The Board understands that, in order to be entitled to the benefits of insurance under Section 12B of the Federal Reserve Act between January 1, 1934, and July 1, 1934, a nonmember State bank must have been admitted by the Federal Deposit Insurance Corporation to the Temporary Federal Deposit Insurance Fund, pursuant to the provisions of subsection (y) of Section 12B and that, in order to be entitled to the benefits of insurance between July 1, 1934, and July 1, 1936, a nonmember State bank must have become a member of the Federal Deposit Insurance Corporation either by subscribing for the same amount of Class A stock of the corporation as it would be required to subscribe and pay for upon becoming a member bank, or by depositing with the corporation an amount equal to the amount it would have been required to pay in on account of subscription to such stock, if it is not permitted to subscribe for such stock by the laws under which it was organized.

A State bank organized after June 16, 1933, and having a capital of only \$25,000 would not be legally eligible for membership in the Federal Reserve System, therefore, until it has become entitled to the benefits of insurance under the provisions of Section 12B of the Federal Reserve Act by one of the two methods described in the preceding paragraph.

If it is necessary for the State Bank of \_\_\_\_\_ to obtain a new charter, therefore, and if the new bank has a capital of less than \$50,000, it cannot be admitted to the Federal Reserve System until it has been admitted to the Temporary Federal Deposit Insurance Fund, which does not become effective until January 1, 1934. It could, however, submit its application for membership in the Federal Reserve System and that application

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could be approved, effective if and when the bank is admitted to the benefits of the Temporary Federal Deposit Insurance Fund; provided the bank is otherwise eligible and acceptable for membership in the Federal Reserve System.

The question whether the \_\_\_\_\_ State Bank was "organized under the general laws of any State" within the meaning of Section 9 of the Federal Reserve Act is primarily a question of State law, upon which it would be advisable for you to obtain a definite opinion from Counsel for the Federal Reserve Bank of Minneapolis.

In accordance with your request, the papers inclosed with your letter are returned herewith, in order that they may be forwarded to the Board in proper form if and when the application is finally submitted to the Board.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.

Inclosures.