

INTERPRETATION OF BANKING ACT OF 1933

367

(Copies to be sent to all Federal reserve banks.)

June 23, 1934.

SARGENT
SAN FRANCISCO

Your wire June 20 requesting advice whether State member bank located in place of less than 3000 population with capital of \$40,000 may reduce its capital \$20,000 as part of a plan whereby its capital will be again increased in an equal amount through sale of \$20,000 of preferred stock to Reconstruction Finance Corporation, even though the resulting capital will not be equal to the amount required for organization of a national bank. Board in a few cases involving similar circumstances has taken position that since purposes of Federal Reserve Act would be substantially complied with it would raise no objection to the reduction of capital provided that after reduction and increase by sale of additional stock capital of bank was at least equal to amount of its capital prior to such reduction and provided that such reduction was valid under State law. Each case of this kind involves the question whether purposes of Federal Reserve Act are being substantially complied with and should be submitted to Board for consideration with detailed information regarding plan of rehabilitation, advice as to validity of reduction under State law and recommendation by Federal Reserve Agent. In specific case referred to Board on basis of information submitted will raise no objection to proposed reduction provided that none of funds released by such reduction are returned to share holders but are used to eliminate any undesirable assets in bank, that reduction is valid under State law and that it meets with your approval.

(Signed) Chester Morrill

MORRILL