

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9393

December 13, 1935.

Subject: Retirement by State member banks  
of preferred stock, capital notes  
and debentures.

Dear Sir:

The Board has recently had its Division of Examinations make a review of the condition of State member banks in which the Reconstruction Finance Corporation has a capital investment. In connection with this review you were asked to advise which banks could, in your opinion, retire with safety at this time all or a substantial portion of the capital held by the Corporation.

The review developed that certain banks were in a position to retire all or part of the capital investment held by the Reconstruction Finance Corporation and still have capital in an amount adequate for the protection of the depositors and other customers of the bank. As recovery continues to progress and further corrections are made of the conditions which weakened the capital structure of the banks, there will undoubtedly be other cases where retirement of excess capital will be justified. The Board, therefore, feels it desirable to indicate at this time its views regarding the general policies which it feels should govern the retirement of preferred

stock and capital notes and debentures of State member banks, whether held by the Reconstruction Finance Corporation or by local investors.

In the letter X-9048 (December 15, 1934) the Board outlined the procedure to be followed by the Federal Reserve Agents in passing upon proposed reductions of preferred stock and capital notes and debentures by State member banks. In passing upon such proposed reductions the Board requests that the Federal Reserve Agents give full consideration to the capital ratio of the bank, the general type of assets held by the bank, its investment in fixed assets, quality of investment securities, trend of deposits, size and activities of trust department, competency of management and other tangible and intangible factors bearing on the adequacy of the amount of net sound capital of the bank. The Board believes that if, after consideration of the various factors enumerated above, it appears that a bank is in a position to retire with safety part or all of the preferred stock or capital notes or debentures held by the Reconstruction Finance Corporation or local investors, it should be permitted to do so. It has been indicated, however, that there is a tendency among some banks, in view of improving conditions and a surplus of liquid assets, to retire prematurely part of the capital structure and the Board is strongly of the opinion that such action should not be taken until it is clearly demonstrated that the capital proposed to be retired is no longer needed for the protection of the depositors or in the conduct of the bank's business.

It is, of course, desirable that local investors acquire as early as possible the Reconstruction Finance Corporation's holdings of capital in banks. While the Board does not feel that it would be advisable at this time for the Federal Reserve Agents to undertake a campaign to promote such transfers to local interests, it desires that such action be encouraged in particular cases when such transfers appear to be practicable.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill". The signature is written in dark ink and is positioned below the typed name.

Chester Morrill,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.