

FEDERAL RESERVE BOARD**WASHINGTON**ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-9418

January 6, 1936.

SUBJECT: Eligibility for membership of State banks which have issued deferred certificates to depositors.

Dear Sir:

As you know, the Board has heretofore had under consideration the question whether State banks which have issued to certain depositors certificates which are payable after other claims of depositors and other creditors shall have been provided for but which are payable before the payment of any dividends or distribution of any assets of the bank to its stockholders are eligible for admission to membership in the Federal Reserve System. In this connection, please see Board's letter of September 21, 1933 (X-7598).

The Board recently had occasion to reconsider this question on the basis of an application for membership where the bank involved had issued and outstanding certificates of the kind described above, and admitted the bank to membership subject to the following condition, among others:

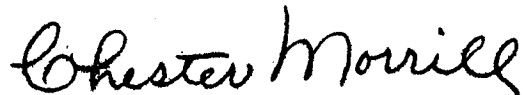
18. Such bank shall stamp, as soon as practicable, in legible form on each certificate for stock of the bank outstanding, and, so long as the legend referred to below is applicable, shall stamp in legible form on each certificate issued upon transfer or in lieu of the certificates now outstanding a legend reading substantially as follows:

Before any dividend or distribution of any kind or character is made to stockholders as such, the outstanding Certificates of Beneficial Interest issued by the bank to depositors who waived the payment of a part of their deposits at the time of the reorganization of the bank in 1933 pursuant to a Depositors Agreement, a copy of which is on file with the , must be paid.

(In the event that shareholders of the bank fail or refuse to surrender their stock certificates for the purpose of enabling the bank to place thereon the legend referred to in the foregoing condition numbered 18, this condition will be considered as having been complied with by the inclusion in each published statement of condition of the bank of appropriate information showing the relation of the rights of the holders of outstanding Certificates of Beneficial Interest to the rights of stockholders.)

It is the view of the Board that, in acting on applications for membership, any obligation of a bank on certificates of the kind referred to above should not be included in determining whether or not the capital of the bank is impaired. Accordingly, you are advised of the action which was recently taken by the Board for your guidance in connection with any similar cases which may arise in your district.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.