

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9475

January 31, 1936.

SUBJECT: Reduction of Preferred Stock or Capital
Notes or Debentures by State Member Banks.

Dear Sir:

The Board's attention has been called to a case where a State member bank having a capital of less than \$50,000, and situated in a place the population of which does not exceed 3,000 inhabitants, desires to reduce its capital to an amount not less than \$25,000, through the retirement of capital debentures issued to the Reconstruction Finance Corporation. As you know, a national bank may not be organized with a capital of less than \$50,000, whereas a State bank located in a town the population of which does not exceed 3,000 inhabitants may be admitted to membership in the Federal Reserve System, under certain conditions, with a capital of not less than \$25,000.

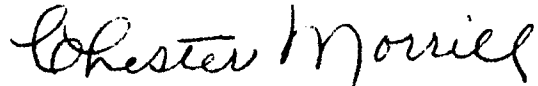
The Board has held, under applicable provisions of the Federal Reserve Act, that where a State member bank reduces its capital to an amount below that required for the organization of a national bank in the place where the State member bank is located it is a violation of the technical requirements of the Federal Reserve Act for which the bank's membership might be forfeited. However, whether such action should be taken in any case is a matter involving the

exercise of a discretion by the Board. On the basis of the facts involved in the case described above, the Board felt that the proposed action by the State member bank referred to did not constitute a violation of the purposes of the requirements of the Federal Reserve Act, and that the Board would be justified in raising no objection to the proposed retirement of capital debentures. In reaching this conclusion, the Board was influenced by the fact that the State member bank could withdraw from the System, effect the retirement of the capital debentures, and, in view of its location in a place with a population of less than 3,000 inhabitants, still have sufficient capital to meet the requirements of the Federal Reserve Act for readmission to membership in the System.

It is understood that a number of State member banks located in places with a population of less than 3,000 inhabitants have issued preferred stock or capital notes or debentures at a time when they were in need of additional capital on account of the condition of their assets to enable them to meet the demands of their depositors or for other purposes. Some of these banks may now be in a position to retire preferred stock or capital notes or debentures without affecting the soundness of their capital structures and without jeopardizing the interests of depositors or other creditors. In the circumstances, you are authorized to state that the Board will interpose no objection to reductions of capital notes or debentures sold to the Reconstruction Finance Corporation or preferred stock by State member banks located in places

having a population which does not exceed 3,000 inhabitants, where, in your opinion, all of the circumstances involved warrant such a reduction and where, after such reduction is accomplished, the member bank will have a capital of at least \$25,000. In considering a reduction in any such case, you should be guided by the principles and instructions contained in the Board's letter of December 15, 1934 (X-9048) relating to approval of reductions of preferred stock or capital notes or debentures generally.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.