

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

X-9480

February 6, 1936.

SUBJECT: Reduction of Capital of State Member Banks.

Dear Sir:

Standard condition of membership numbered 2 as printed in the Board's Regulation H, effective January 1, 1936, provides in part that the capital of a bank subject to such condition "shall not be reduced except with the permission of the Board of Governors of the Federal Reserve System." Footnote 9 in the Regulation, however, provides:

"A reduction in capital, however, shall not be deemed to be contrary to this provision if, at the same time, the capital is correspondingly increased or a specific reserve in an amount not less than the amount of the capital reduction is set aside to provide for an increase in capital and can be used for no other purpose; provided, of course, the transaction does not violate any provision of applicable laws."

The interpretation incorporated in the above footnote is hereby made applicable in all cases where a bank has been admitted to membership in the past subject to a condition of membership that the bank's capital shall not be reduced except with the permission of the Board. Please be guided accordingly.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.