

INTERPRETATION OF LAW OR REGULATION

(Copies to Be Sent to All Federal Reserve Banks)

April 19, 1940

Mr. _____,
First Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of April 12, 1940, to Mr. _____, regarding _____ Banking Company, _____, _____, an uninsured bank which has indicated an interest in membership. You report that the bank was organized in 1905, has a capital of \$25,000, and is located in a town having a population of 641, and ask whether it would have to be examined by the Federal Deposit Insurance Corporation in order to be admitted to membership in the System. In submitting the question, you refer to the fact that prior to the admission of _____ Bank, _____, _____, to membership last year, it was considered necessary for the Federal Deposit Insurance Corporation to make an examination of _____ National Bank, which was to be succeeded by the newly organized _____ Bank.

As your counsel has correctly pointed out, the two cases are not comparable, the distinction arising from the fact that _____ Bank was organized subsequent to June 16, 1933, and _____ Banking Company was organized prior to that date. In order to be eligible for membership, it was necessary for _____ Bank to be entitled to the benefits of insurance under section 12B of the Federal Reserve Act at the time of its admission. That is not required in the case of _____ Banking Company and, thus, while it was necessary for _____ Bank to comply with the provisions of subsection (f)(2) of section 12B under which a State nonmember bank may become an insured bank "upon application to and examination by the [Federal Deposit Insurance] Corporation and approval by the board of directors", _____ Banking Company may be admitted to membership without action by the Federal Deposit Insurance Corporation.

Although there is no necessity for action by the Federal Deposit Insurance Corporation except in the limited class of cases like that of _____ Bank, the Board has consistently endeavored to cooperate with the Federal Deposit Insurance Corporation in acting upon applications for membership by noninsured as well as insured banks. In this connection, reference is made to circular letter S-10 of June 26, 1937 (F.R.L.S. #3477). In the case of _____ Banking Company, since the bank was at one time an insured bank but withdrew, it would be expected that the information submitted to the Board with the application would contain full information concerning the circumstances involved.

Very truly yours,
(Signed) L. P. Bethea
L. P. Bethea,
Assistant Secretary.