CIRCULAR No. 6
(REVISED)

OF THE

RECONSTRUCTION
FINANCE CORPORATION

INFORMATION REGARDING SUBSCRIPTIONS
FOR AND LOANS SECURED BY PREFERRED
STOCK OF BANKS AND TRUST COMPANIES
AND THE PURCHASE OF CAPITAL NOTES
AND DEBENTURES OF SUCH INSTITUTIONS

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INFORMATION REGARDING SUBSCRIPTIONS FOR AND LOANS SECURED BY PREFERRED STOCK OF BANKS AND TRUST COMPANIES AND THE PURCHASE OF CAPITAL NOTES AND DEBENTURES OF SUCH INSTITUTIONS

The act of Congress approved March 9, 1933 (Public, No. 1, 73d Cong.), as amended, authorizes national banks to issue nonassessable preferred stock. The legislatures of many States have passed similar acts, applicable to State banks and trust companies. These acts, by permitting the sale of stock having a preferred position and being at the same time free from liability for assessment, should make it less difficult for communities to raise funds necessary in connection with the organization, reorganization, or recapitalization of local banks and trust companies.

The Reconstruction Finance Corporation may subscribe for the nonassessable preferred stock of banks or trust companies and thus render assistance in particular instances where it may not be possible to raise locally all the capital required for such institutions.

The Corporation also may make loans secured by preferred stock of banks or trust companies as collateral, whether such stock is assessable or nonassessable, and it may purchase the capital notes or debentures of a State bank or trust company which is not empowered by law to issue nonassessable preferred stock or which is empowered to issue such stock only with the unanimous consent of all of its stockholders.

Subscriptions for preferred stock and loans secured by preferred stock may be made and capital notes or debentures purchased only if the Corporation is requested to do so by the Secretary of the Treasury with the approval of the President.

The Corporation may, with the approval of the Secretary of the Treasury and under such rules and regulations as he may prescribe, sell in the open market the whole or any part of the preferred stock, capital notes, or debentures acquired by it.

This circular is issued to give information concerning:

A. Purchase by Reconstruction Finance Corporation of preferred stock of a national banking association, and preferred stock, capital notes or debentures of a State bank, or trust company; and

B. Loans by the Reconstruction Finance Corporation upon the security of preferred stock of a national banking association, State bank, or trust company.
Section I—General

1. All applications should be made directly to the Loan Agency of the Corporation serving the territory in which the applicant is located. Loan agencies will supply application forms upon request. In filing applications care should be taken to observe the instructions contained in the application forms. Prospective applicants are urged not to announce to the public any plan of reorganization involving the purchase of preferred stock, capital notes, or debentures by the Corporation or the making of a loan secured by such preferred stock, and not to take any definite public action intended to carry out any part of such plan until the Board of Directors of the Corporation has indicated its approval of the application.

2. The terms of the articles of association or incorporation of the bank or trust company governing its preferred stock, capital notes, or debentures, and the terms of the capital notes or debentures must comply substantially with standard forms prepared by the Corporation. The following forms have been prepared to cover provisions of the articles of association or incorporation authorizing the issue of the following-mentioned securities: (a) One class of preferred stock—R.F.C. Form P.S.-1 (revised August 18, 1933); (b) two classes of preferred stock—R.F.C. Form P.S.-3 (revised August 18, 1933). R.F.C. Form P.S.-2 (revised August 18, 1933) has been prepared to cover the actual provisions of debentures.

3. The sound value of the assets of the bank or trust company must at least equal its deposits and other liabilities. In addition there must be provided a reasonable margin of protection for its preferred stock, capital notes, or debentures, represented by common stock alone, or by common stock and junior preferred stock or junior capital notes or debentures. After an application has been filed, examiners for the Corporation will examine the assets of the bank or trust company before any commitment is made by the Corporation.

4. The anticipated earning capacity of the bank or trust company must be sufficient to enable it to pay dividends at the stipulated rate on the preferred stock or interest on the capital notes or debentures to be purchased by the Corporation, or pledged to the Corporation in the case of preferred stock, after meeting expenses and making proper provisions for reserves and retirement of preferred stock, capital notes, or debentures.

5. Any plan of organization, or of reorganization, of a bank or trust company or any plan supplementing the existing sound capital of a bank or trust company in which the issue of preferred stock, capital notes, or debentures is contemplated, must be carried out with strict compliance with constitutional statutory authority.

Section II—Purchase of Preferred Stock, Capital Notes, or Debentures

1. Application may be made to the Corporation to subscribe for the preferred stock or to purchase the capital notes or debentures of a bank or
trust company which is (a) open, (b) closed and contemplating reorganization, or (c) to be newly formed. Applicants should first ascertain whether the institution is empowered by law to issue the contemplated preferred stock, capital notes, or debentures.

2. The Corporation will not subscribe for the preferred stock of any State bank or trust company unless such stock is by law nonassessable and unless the holders thereof are not liable for any debts, contracts, or obligations of the bank or trust company issuing the same (although it may consider a loan on such preferred stock as hereinafter provided). If the bank or trust company cannot issue preferred stock meeting these requirements the applicant should consider either:

(a) The issue by the bank or trust company of capital notes or debentures or

(b) A loan, as hereinafter provided, by the Corporation upon the collateral of such preferred stock as the applicant is authorized by law to issue.

3. In cases where the Corporation purchases capital notes or debentures the Corporation will require satisfactory assurances that the management of the bank or trust company and the compensation paid its officers, directors, and employees will be satisfactory to it.

Section III—Loans Secured by Preferred Stock

1. Application may be made to the Corporation for loans to individuals, firms, or corporations desiring to purchase the preferred stock of a bank or trust company, to be secured by such preferred stock as collateral.

2. In making loans secured by preferred stock of banks or trust companies, the Corporation will be governed by the usual factors determining a sound credit risk. The financial responsibility of each borrower will, therefore, be given careful consideration. In general, other collateral will be required as a margin in addition to the preferred stock purchased with the proceeds of the Corporation's loan.

3. The Corporation will require satisfactory assurances that the management of the bank or trust company and the compensation paid the officers, directors, and employees will be satisfactory to it.

4. The law does not authorize the Corporation to make loans upon capital notes and debentures, or for the purpose of issuing such notes or debentures.