CHANGES IN CAPITAL

1. *Increase of Capital*—A bank contemplating increase of its capital, whether by the sale of shares or the declaration of a stock dividend, should, before submitting the question to the shareholders, first communicate with the Comptroller, since that official's approval is necessary. Accompanying the notification that his consent to the increase has been given, the Comptroller will send the proper forms and instructions.

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The affirmative vote of the owners of two-thirds the bank's capital stock is necessary, and the shareholders must be given notice (usually 30 days in advance) of the meeting at which the proposition is to be submitted, as required by the bank's Articles of Association. Shareholders unable to be present at the meeting may be represented by proxy. (See "Proxy," pages 57-58).

No increase is valid until the whole amount is paid in (in the case of increase by sale of new shares), certified to the Comptroller, and his certificate of approval is issued.

Increase of Capital by Stock Dividend—Prior to the passage of the McFadden Act in February, 1927 the declaration of a stock dividend by a national bank was permitted under a ruling by the Comptroller of the Currency. Recognizing the authority of national banks to distribute as divdends accumulated profits in excess of required surplus, and the shareholders' right to apply these dividends to the purchase of new issues of shares, the Comptroller, by his ruling, held that such application might be made directly. A section of the McFadden bill legalizes this ruling, and stipulates that a national bank may, with the approval of the Comptroller and by vote of shareholders owning two thirds of the capital stock, increase its capital stock by the declaration of a stock dividend, provided the bank's surplus after approval of the increase, shall be at least equal to 20 percent of the amount of its capital stock as increased. In event that the net undivided profits are not sufficient such an amount as may be necessary may be transferred, by authority of the directors, from surplus to the undivided profit account, provided that the surplus is not reduced below twenty per cent of the capital as increased.