FEDERAL RESERVE BANK OF CHICAGO

79 WEST MONROE STREET

Bulletin No. 63
March 2, 1917.

TO THE MEMBER BANK ADDRESSED:

Since issuing our bulletin of November 29, 1916, bearing upon the subject of deficiency in reserves carried by member banks with the Federal Reserve Bank of Chicago, many inquiries have been received from member banks bearing upon the points involved; and, with a view to a more thorough understanidng of the subject, we respectfully urge that careful consideration be given to the following:

Section 19 of the Federal Reserve Act, after specifying the reserve requirements for member banks, provides that:

> "The reserve carried by a member bank with a Federal reserve bank may, under the regluations and subject to such penalties as may be prescribed by the Federal Reserve Board, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities: **Provided, however,** That no bank shall at any time make new loans or shall pay any dividends unless and until the total reserve required by law is fully restored."

Regulation J (Series of 1916) of the Federal Reserve Board, which prescribes the penalty, reads in part as follows:

> "In as much as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve shall be strictly complied with, the Federal Reserve Board, under authority vested in it by Section 19 of the Act, hereby prescribes as the penalty for any deficiency in reserves a sum equivalent to an interest charge on the amount of the deficiency of 2 per cent. per annum above the ninety day discount rate of the Federal reserve bank of the district in which the member bank is located. The Board reserves the right to increase this penalty whenever conditions require it."

The foregoing indicates clearly that the imposition of a penalty for deficient reserves is not an arbitrary action on the part of the Federal Reserve Bank, but is expressly provided for in the Federal Reserve Act itself.

For the present the penalty, based on the above ruling, is at the rate of 6½ per cent. per annum.

While, up to the present time, we have been proceeding in accordance with the plan outlined in our bulletin referred to above, asking reports from only those banks whose reserves appear to be deficient, in the light of experience gained it now seems advisable to adopt a uniform procedure and request all member banks to render periodical statements indicating the status of their reserve requirements with this bank. Therefore, you will find enclosed herewith a supply of blank forms for your use, one of which you will please execute and return as of the close of business on the fifteenth of each month, and another on the last day of each month. While we are asking semi-monthly reports, the penalty for deficiency, if any, will be assessed basis the monthly average.

In this connection we would direct the attention of member banks to the fact that it is the collected funds standing to the credit of the member banks on our books which constitute that portion of their reserve they are required to keep with the Federal Reserve Bank, and not the balance as shown by their books.

Respectfully,

JAMES B. McDOUGAL,
Governor.