



FEDERAL RESERVE BANK  
OF DALLAS

Circular No. 4  
Series of 1921

January 22, 1921.

CHANGE IN PENALTY RATE FOR DEFICIENCIES IN MEMBER BANKS' RESERVES.

TO THE MEMBER BANK ADDRESSED:

Effective the first week in January, 1921, (ending January 9th) and for each week thereafter until further notice, penalties will be assessed covering deficiencies in member banks' reserves on the following basis:

On the first deficiency occurring after January 2, 1921, a penalty will be assessed at the rate of two per cent (2%) above the ninety day discount rate, provided the member bank's legal reserve has been maintained for three (3) consecutive weeks immediately preceding the week in 1921 during which the first deficiency occurs. On the first deficiency occurring after January 2, 1921, if the member bank's legal reserve has not been maintained for three consecutive weeks immediately preceding the week in 1921 during which the deficiency first occurs, a penalty will be assessed at the rate of one-half of one per cent ( $1\frac{1}{2}\%$ ) above the rate assessed for the preceding deficiency. The penalty rate after January 2, 1921, is progressive, and increases one-half of one per cent ( $1\frac{1}{2}\%$ ) for each subsequent weekly deficiency, and will revert to normal only when the legal reserve has been restored and maintained for three (3) consecutive weeks.

Deficiencies in member banks' reserves are determined each week by comparing the average balance for the week with the average reserve requirement for the same week, as figured from the member banks' report of Demand and Time Deposits; therefore, an average excess balance carried during one week may not be used to offset an average deficiency occurring in another week, but each week is considered separately. The right is reserved to assess penalties on a daily basis when it is deemed necessary.

The average reserve requirement, and the average reserve balance of a member bank is calculated on a seven (7) day weekly basis, the week beginning with Monday and ending with Sunday. The reserve balance of a member bank at close of business Saturday is used as the balance for Sunday, and member banks in preparing their weekly report of Demand and Time Deposits should report the same deposits for Sunday as they report for Saturday.

The progressive penalty rate outlined above has been approved by the Federal Reserve Board, under the authority delegated in Section 19 of the Federal Reserve Act, which provides that:

"The reserve balance carried by a member bank with a Federal Reserve Bank may, under the regulations 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 balance required by law is fully restored."

There is no doubt but that many penalties assessed during the year 1920 could have been avoided, had those in charge of accounting for member banks thoroughly informed themselves relative to the principles and methods of reserve computation, and had given the matter of maintaining their legal reserves at all times their prompt and careful attention. A member bank's legal reserve is represented by the amount of its credit in reserve account on the books of the Federal Reserve Bank. Statements of reserve accounts forwarded by the Federal Reserve Bank daily should be checked immediately upon receipt by the member bank, so that errors, delays in credit, etc., may be promptly reported.

Member banks are urged to maintain their full required reserves at all times and not subject themselves to the penalty which the Federal Reserve Bank must assess, and under the law has no authority to waive. It is to the interest of every member bank to lend its co-operation to the end that full reserves may be maintained at all times, thus placing the Federal Reserve Bank in a position to fulfill its primary function as a central reserve agency with adequate reserves, and to render the greatest possible service to its members.

Respectfully,

*R. L. Van Zandt*  
Governor