



**FEDERAL RESERVE BANK
OF DALLAS**

Circular No. 27
Series of 1922

December 23, 1922.

PENALTIES FOR DEFICIENCIES IN RESERVES OF MEMBER BANKS

To the Member Bank Addressed:

This circular supersedes all previous circulars governing the assessment of penalties to cover deficiencies in member banks' reserves.

Unless otherwise stated, the term "Federal Reserve Bank of Dallas" includes the El Paso and Houston branches.

Effective January 1, 1923, penalties will be assessed covering deficiencies in member banks' reserves on the following basis:

Deficiencies in reserve balances of member banks in reserve cities will be computed on the basis of average daily net deposit balances covering a weekly period of seven days commencing with Thursday and ending with the Wednesday following. Deficiencies in reserve balances of member banks outside of reserve cities will be computed on the basis of average daily net deposit balances covering a semi-monthly period.

Penalties for deficiencies in reserves will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding month.

A basic rate of 2% per annum above the Federal Reserve Bank discount rate on ninety-day commercial paper will be assessed as a penalty on deficiencies in reserves of member banks.

When a member bank in a reserve city has had an average deficiency in reserves for six consecutive weekly periods, a progressive penalty, increasing at the rate of one-fourth of one per cent for each week thereafter during which the average reserve balance is deficient, will be assessed on weekly deficiencies until the required reserve has been restored and maintained for four consecutive weekly periods, provided, that the maximum penalty charged will not exceed 10%.

When a member bank outside of a reserve city has had an average deficiency in reserves for three consecutive semi-monthly periods, a progressive penalty, increasing at the rate of one-half of one per cent for each half-month thereafter during which the average reserve balance is deficient, will be assessed on semi-monthly deficiencies until the required reserve has been restored and maintained for two consecutive semi-monthly periods, provided that the maximum penalty charged will not exceed 10%.

A deficiency in a member bank's reserve is determined by comparing the average reserve balance maintained with the Federal Reserve Bank for the period with the average reserve requirement for the same period, as shown by the member bank's report of net deposits; therefore, an average excess balance carried during one period can not be used to offset an average deficiency occurring in another, but each period will be considered separately.

The average reserve requirement and the average reserve balance of reserve city banks are calculated on a seven-day basis, the week beginning with Thursday and ending with the Wednesday following. The average reserve requirement and the average reserve balance of member banks outside of reserve cities are calculated on a semi-monthly basis, beginning with the first and sixteenth and ending with the fifteenth and last day of each month, respectively. The net deposits to be reported by a member bank for Sundays and holidays should be the same as reported for the last preceding business day.

A member bank's legal reserve is represented by the collected balance to its credit on the books of the Federal Reserve Bank. Statements of reserve accounts which are forwarded to member banks daily by the Federal Reserve Bank should be checked immediately upon receipt in order that errors, delays in credit, etc., may be promptly reported for investigation and correction, if necessary.

Respectfully,

A handwritten signature in cursive script, appearing to read "R. A. McKinney". The signature is written in dark ink and is positioned above the printed name "Governor.".

Governor.