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CIRCULAR NO. 8
Series of 1925

FEDERAL RESERVE BANK OF DALLAS

Dallas, Texas, December 28, 1925

CLASSIFICATION OF DEPOSITS OF INDIAN FUNDS

To the Member Bank Addressed:

For the information of those of our member banks which are, or may become, depositaries of Indian funds, I am quoting below Order No. 212 of the Department of the Interior, dated September 21, 1925, relating to the proper classification of such deposits:

"To All Disbursing Officers of the Indian Service and Bank Depositaries for Individual Indian Money:

DEMAND AND TIME DEPOSITS

Recent correspondence had with the Federal Reserve Board establishes the fact that deposits of Indian funds secured by corporate and individual surety bonds are demand deposits within the meaning of the Federal Reserve Act, because of the inability of the Department in all cases to guarantee thirty days' notice to depositaries before making withdrawals. Surety bonds given by banks to secure deposits of Indian funds provide in part:

'But in case the surety or the Commissioner of Indian Affairs shall desire to terminate this contract as to future acts or defaults of the principal, either may, subsequent to said stipulated period, give the other notice in writing, to be effective thirty days from receipt thereof, of his intention so to do, and thereafter no new liability shall accrue against the surety.'

It will be seen from the foregoing that upon expiration of the stipulated term, the bond is subject to cancellation. If the surety desires to take advantage of the cancellation privilege, he must notify the Commissioner of Indian Affairs to that effect, such notice befoming effective thirty days from its receipt by the Indian Office. Under this arrangement it would be impossible to give a bank full thirty days' notice of withdrawal without the deposit becoming unsecured. The practice, however, of allowing deposits which have heretofore been considered as time deposits to remain undisturbed during the life of the bond will be continued, and banks will be notified promptly upon receipt of cancellation notices in order that they may have as long a time as possible to arrange for substitute security or for relinquishing the funds.

As indicated above, only such funds as are secured by corporate and individual surety bonds are to be classed as demand deposits. Funds secured

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by Government bonds will be kept on deposit as long as the bank desires, unless good administration necessitates withdrawals. In such cases banks will be notified at least thirty days in advance. This, of course, does not apply to checking accounts.

In this connection, it is desired to correct an erroneous impression which some institutions appear to have with regard to certificates of deposit. The regulations do not provide for the acceptance of certificates, and, inasmuch ad deposits are placed subject to the provisions of the bonds furnished as security, they have no binding effect upon the Government, in so far as they attempt to stipulate the periods for which deposits are made.

(SIGNED) CHAS. H. BURKE,
Commissioner

Approved: September 23, 1925
John H. Edwards,
Assistant Secretary."

Since the issuance of the above order we are in receipt of the following advice from the Department of the Interior, dated December 23, 1925:

> "In this connection, you are informed that since the issuance of Order No. 212, this Office has let it be known that no objection would be offered should any depositary for Indian funds succeed in persuading its surety to modify the bond given as security so as to provide a forty-five day cancellation period. In such cases it would be possible to assure banks that thirty days' notice would be given in advance of withdrawals, which, according to Section 19 of the Federal Reserve Act, would establish the deposits as time deposits."

Member banks affected are requested to observe the above rulings in the future preparation of their reports of net deposits.

Yours very truly,

(SIGNED) LYNN P. TALLEY,
Governor.