

**FEDERAL RESERVE BANK
OF DALLAS**

Circular No. 6
Series of 1928

May 15, 1928.

SUBJECT: Deposits in Member Banks by Mutual Savings Banks, Morris Plan Banks, Credit Unions, Building and Loan Associations and Co-operative Banks.

To the Member Bank Addressed:

For your information and guidance, there is quoted below a communication from the Federal Reserve Board under date of May 3, 1928, with reference to the classification of certain deposits:

"The question has been presented to the Federal Reserve Board whether deposits in member banks by mutual savings banks, Morris Plan banks, co-operative banks, credit unions, and building and loan associations should be classed by member banks in computing reserves as amounts 'due to' banks within the meaning of Section 19 of the Federal Reserve Act, from which amounts 'due from' banks may be deducted. From information obtained by the Federal Reserve Board it appears that there has been no uniform practice among member banks in classifying deposits of any one of the classes of institutions mentioned.

The question whether the respective institutions should properly be regarded as banks within the meaning of Section 19 of the Federal Reserve Act depends upon the nature and functions of each:

A mutual savings bank is engaged in banking functions in accepting deposits and making loans. The Attorney General has held that mutual savings banks should be considered 'banks' within the meaning of Section 4 of the Federal Reserve Act and a similar reasoning would require that they be regarded as 'banks' within the meaning of Section 19.

Morris Plan banks are also engaged in the acceptance of deposits and the making of loans to certain classes of persons, and the exercise of these functions require that they be regarded as banks.

A building and loan association is of a somewhat different character. It makes loans to its members upon the security of real estate and membership shares but it does not usually receive deposits from members or others, except installment payments on membership shares. Such installment payments are essentially capital rather than deposits. The primary function of a building and loan association is usually, therefore, to make loans on real estate to its members out of capital paid in by such members. Inasmuch as it does not receive deposits and loans are made from capital, it is not to be regarded as a bank.

Co-operative banks of the type found in Massachusetts are similar in purpose and functions to building and loan associations and are to be classified in the same way. Co-operative banks of the Massachusetts type are to be distinguished from those so-called co-operative banks organized either under National or State law having general banking powers; the latter are undoubtedly banks within the meaning of Section 19.

Credit unions are authorized to receive savings of their members in payment for shares of capital stock and also generally to receive such savings on deposit. Loans are made to members under certain restrictions and limitations. The fact that they receive deposits and loans are thus made not only out of capital but from deposits brings them within the usual definition of a bank.

After a careful consideration of the nature of these several institutions the Federal Reserve Board is of the opinion that deposits made by mutual savings banks, Morris Plan banks and credit unions should be classified by member banks as amounts 'due to' banks within the meaning of Section 19 of the Federal Reserve Act, from which amounts 'due from' banks may be deducted, but deposits of building and loan associations and co-operative banks of the type found in Massachusetts may not be so classified."

Yours very truly,



Governor.