

FEDERAL RESERVE BANK OF DALLAS

Dallas, Texas, November 26, 1930

RESERVE DEPOSITS OF MEMBER BANKS AND BASIS OF ASSESSING PENALTIES FOR DEFICIENCIES IN MEMBER BANKS' RESERVES

To the Member Banks of District No. 11:

This circular supersedes all previous circulars on this subject and its provisions are subject to change without notice. Unless otherwise stated, the term "Federal Reserve Bank of Dallas" includes its El Paso, Houston and San Antonio Branches.

STATUTORY REQUIREMENTS

The Federal Reserve Act requires each member bank of the Federal Reserve System to maintain on deposit with the Federal reserve bank of its district an actual net balance equal to 3 per cent of its time deposits plus—

Seven per cent of its demand deposits if not in a reserve or central reserve city.

Ten per cent of its demand deposits if in a reserve city.

Thirteen per cent of its demand deposits if located in a central reserve city.

RESERVE BALANCES CONSIST OF COLLECTED FUNDS ONLY

Under the Federal Reserve Act, actual net balances only are available as reserves. Therefore, deposits of checks on clearing house banks, or other immediately available items, will not be counted as reserves until the business day of receipt (closing hours as determined from our Time Schedules of Availability); and deposits of checks payable in outside cities will not be available as reserves until the availability date as determined from the published time schedule.

Member banks may establish and maintain their reserve balances by:

Transfers of funds.

Deposits of currency and coin.

Depositing checks and drafts which are immediately available at the office of receipt.

Depositing other checks and drafts, the proceeds of which will be available as reserves in accordance with the time schedule.

Rediscounting or borrowing on bills payable.

METHOD OF COMPUTING RESERVES

The following information is given as a guide to member banks in classifying demand and time deposits, and determining the amount of each class of deposits to be reported as subject to the reserve requirement.

Demand Deposits Subject to the Reserve Requirement Include:

Individual deposits subject to check.

Certificates of deposit which are past due, payable on demand, or due and payable in 30 days or less.

Deposits of State, County, or other public monies (except United States Government Deposits) payable on demand or in 30 days or less, irrespective of being secured.

Other deposits (except bank and United States Government Deposits), irrespective of being secured, which are subject to withdrawal by check without notice, or are subject to 30 days' or less notice.

The excess, if any, of the total amount "DUE TO BANKS" over the total amount "DUE FROM BANKS."

If there is no excess, all the items are eliminated from the reserve calculation.

"Due to Banks," for reserve calculation purposes includes the following:

Amounts due to Federal reserve bank (deferred credits).

Demand balances due to other banks and trust companies in United States.

Demand balances due to banks in foreign countries.

Certified and cashiers' checks, or treasurers' checks, including dividend checks, outstanding.

Letters of credit and travelers' checks sold for cash and outstanding.

"Due from Banks," for reserve calculation purposes, includes the following:

Items with Federal reserve bank in process of collection.

*Balances due from banks and trust companies, other than the Federal reserve bank and foreign banks.

(Do not include any amounts not subject to withdrawal without notice.)

Exchanges for clearing house and other checks on local banks.

Balances payable in dollars due from foreign branches of other American banks.

(*Balances due from banks include checks and drafts on banks which have been placed in the mail and forwarded to correspondent banks for credit or remittance, but do not include, while in process of collection, such items as bonds, coupons, bill of lading drafts, or checks or drafts drawn on individuals, firms, or corporations other than banks, unless there is an agreement whereunder such items are to be credited to the account of the forwarding bank immediately upon receipt by the correspondent bank.)

Time Deposits Include:

State, County, and other public monies (except U. S. Government) payable after 30 days or subject to 30 days' or more notice of withdrawal, irrespective of being secured.

Deposits of other banks and trust companies, payable after 30 days or subject to 30 days' or more notice of withdrawal.

Deposits evidenced by savings pass books, provided the pass books or other contracts require, or reserve the right to require thirty days' written notice of withdrawal and provided further that the pass book or other contract is presented whenever a deposit or withdrawal is made.

Certificates of Deposit payable after 30 days or subject to 30 days' or more written notice of withdrawal.

Time deposits-open accounts, Christmas savings accounts, etc.

Time deposits-open accounts, are defined as deposits not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, except on a given date, not less than 30 days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days.

Postal Savings Deposits.

Cash in Vault

Cash in vault is not permitted as a deduction from the required reserve balance or from deposits subject to reserves.

United States Government Deposits

Deposits of public monies by the United States in designated depositories are specifically exempt from the reserve requirements of the Federal Reserve Act. Such deposits include War Loan Deposit Accounts, Government funds (other than Postal Savings Deposits) received by United States Postmasters in their official capacity and deposited by them in designated depositories, and other deposits held by designated depositories to the credit of the Treasurer of the United States or to the credit of Government agencies or officials with the Treasurer of the United States. The following classes of deposits are not "Government Deposits," and are not exempt from reserve requirements.

Deposits of States, Counties, or Municipalities.

Deposits of Indian funds under the control of the Department of the Interior.

Deposits of funds of insolvent National banks.

Deposits of Bankruptcy funds.

Deposits of court funds other than to the credit of United States courts or their officers with the Treasurer of the United States.

Deposits of the United States Shipping Board and the Emergency Fleet Corporation.

Deposits of Porto Rican funds.

Deposits of Philippine funds.

Indian Funds Deposits

Deposits of Indian funds are subject to reserves as demand deposits, except that those deposits on which the Department of the Interior has agreed to give thirty days' written notice of withdrawal may be classified as time deposits. The Department of the Interior has stated through its Order No. 212 and other advices that an agreement to give such notice can be made by the Department only in the case of deposits, other than checking accounts, which are secured by Government bonds, or by surety bonds which provide a forty-five day cancellation period.

Uninvested Trust Funds

A member bank exercising trust powers need not maintain reserves against trust funds which it keeps segregated and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of Section 11(k) of the Federal Reserve Act, a deposit liability thereby arises against which reserves must be maintained. In computing reserve requirements, trust funds deposited in a member bank by another bank to the credit of such other bank as trustee or other fiduciary must be classified by the member bank as individual deposits rather than bank deposits.

RESERVE ACCOUNTING

For their own convenience and in their own interests member banks are urged to carry on their general ledger two accounts with us; one to be known as "Reserve Account (Collected Funds)" and the other "Deferred Account." All items forwarded to us for credit, whether available for immediate credit or not, should be charged into the "Deferred Account," and on the day such items are available for reserve they should be charged into the "Reserve Account" and credited out of the "Deferred Account." By adopting this system and checking our transcript daily member banks will be able to determine accurately the amount of their available reserve balances and thus avoid penalties for deficiencies.

It is also recommended that each member bank make a daily calculation of the amounts of demand and time deposits subject to reserve and determine its reserve requirement from day to day. A convenient form for this purpose is shown on the back page of this circular and a formula is likewise shown on the back of forms furnished member banks for reporting their demand and time deposits.

ANALYSIS ADJUSTMENTS

Where errors of this or other Federal reserve banks or other circumstances warrant adjusting the dates of credits or charges to member banks' accounts adjustments will be made under advice. Analysis adjustments will be made with respect to shipments of money between the Federal Reserve Bank of Dallas and its member banks located outside of the cities of Dallas, El Paso, Houston and San Antonio. Member Banks' reserve accounts will be charged with outgoing shipments on date of shipment and credit will be allowed for incoming shipments on date received. A record will be kept of all money shipments, either to or from our Dallas, El Paso, Houston and San Antonio offices, and in those cases where member banks' reserve balances show deficiencies adjustments will be made allowing them the benefit of money shipments in transit. Adjustments will be applicable only to shipments in transit during the particular period in which reserve deficiencies occur and cannot be used against deficiencies in other periods.

REPORTS OF DEMAND AND TIME DEPOSITS

Each member bank is required to furnish reports of the amounts of its time deposits and net demand deposits, on forms provided for that purpose, in order that the Federal reserve bank may determine whether reserves have been maintained as required by law.

PENALTIES FOR DEFICIENCIES IN RESERVES

Inasmuch as it is essential that the law with respect to the maintenance by member banks of the required minimum reserve balances be strictly complied with, the Federal Reserve Board, under authority vested in it by Section 19 of the Federal Reserve Act, has prescribed the following rules governing penalties for deficiencies in reserves of member banks in the Eleventh Federal Reserve District:

BASIC PENALTY

Deficiencies in reserve balances of member banks in cities where Federal reserve banks or branches thereof are located and in such other reserve cities as the Federal Reserve Board may designate from time to time will be computed on the basis of average daily net deposit balances covering semi-weekly periods of Saturday to Tuesday and Wednesday to Friday. Deficiencies in reserve balances of member banks in all other reserve cities will be computed on the basis of average daily net deposit balances covering weekly periods ending on Wednesday of each week. Deficiencies in reserve balances of other member banks will be computed on the basis of average daily net deposit balances for the semi-monthly period covering the first to the fifteenth and the sixteenth to the last day of each month.

In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balance at the opening of business on the same day. Required reserve balances for Sundays and holidays shall be based upon net deposit balances at the close of business of the preceding business day.

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

Such penalties shall be assessed at a basic rate of two per cent per annum above the Federal Reserve Bank discount rate on ninety-day commercial paper in effect on the first day of the calendar month in which the deficiencies occurred.


The practice of averaging the reserve requirement and the actual reserves maintained over the specified reserve periods does not relieve member banks of the statutory requirement to maintain full reserve balances at all times nor does it sanction offsetting deficient reserve balances in one period with an excess of reserves in another period.

LOANS AND DIVIDENDS PROHIBITED WHILE RESERVES ARE DEFICIENT

We quote below Section 5 of Regulation D bearing on this subject:

"It is unlawful for any member bank the reserves of which are at any time deficient to make any new loans or pay any dividends unless and until the total reserves required by law are fully restored, and the payment of penalties for deficiencies in reserves does not exempt member banks from this prohibition of law. As provided above, penalties for deficiencies in reserves are computed on the basis of the average reserve balances for semi-weekly, weekly, or semi-monthly periods; but this prohibition of law applies whenever the reserves are deficient for one day or more, regardless of whether or not the average reserve balances for the semi-weekly, weekly, or semi-monthly period are deficient."

Yours very truly,



Governor.

**COMPUTATION OF RESERVE TO BE CARRIED WITH THE FEDERAL RESERVE BANK
BY MEMBER BANKS**

DEMAND DEPOSITS SUBJECT TO RESERVE

1. DEPOSITS, except bank and U. S. Government, due in 30 days or less or subject to less than 30 days' notice (Total of Schedule K in the quarterly condition report).....\$ _____
2. DUE TO BANKS:
- (a) Due to Federal reserve bank (deferred credits).....\$ _____
- (b) Demand balances due to other banks and trust companies in United States.....\$ _____
- (c) Demand balances due to banks in foreign countries.....\$ _____
- (d) Certified and cashiers' or treasurers' checks, including dividend checks, outstanding.....\$ _____
- (e) Letters of credit and travelers' checks sold for cash and outstanding.....\$ _____
- (f) Total due to banks (Total of Schedule J in the quarterly condition report).....\$ _____
- LESS:
3. DUE FROM BANKS:
- (a) Items with Federal reserve bank in process of collection.....\$ _____
- (b) Due from banks (other than Federal reserve bank) and trust companies in United States (Do not include any amounts not subject to withdrawal without notice).....\$ _____
- (c) Exchanges for clearing house and other checks on local banks.....\$ _____
- (d) Balances payable in dollars due from foreign branches of other American banks.....\$ _____
- (e) Total due from banks (Total of items 4 to 8 in Schedule I of the quarterly condition report).....\$ _____
4. NET BALANCE DUE TO BANKS (excess of item 2-f over item 3-e; if "Total due to banks" (item 2-f) is less than "Total due from banks" (item 3-e), no amount should be reported against this item).....\$ _____
5. NET DEMAND DEPOSITS SUBJECT TO RESERVE (Item 1 plus item 4).....\$ _____

TIME DEPOSITS

6. DEPOSITS payable after 30 days or subject to 30 days' or more notice, as defined in Federal Reserve Board Regulation D; and Postal Savings (Total of Schedule L in the quarterly condition report).....\$ _____

RESERVE REQUIRED

- ON NET DEMAND DEPOSITS (item 5 above): Banks in central reserve cities, 13 per cent; in reserve cities, 10 per cent; elsewhere, 7 per cent.....\$ _____
- ON TIME DEPOSITS (item 6 above): 3 per cent.....\$ _____
- TOTAL RESERVE TO BE MAINTAINED WITH FEDERAL RESERVE BANK.....\$ _____