

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, December 7, 1935

**REVISED REGULATIONS D AND Q, EFFECTIVE JANUARY 1, 1936**

**To the Member Bank Addressed:**

The Board of Governors of the Federal Reserve System has revised its Regulation D, governing the reserves of member banks, and also its Regulation Q, governing the payment of interest on deposits, and in each case the revised Regulation will become effective January 1, 1936. Printed copies of the revised Regulations are enclosed for your guidance. They supersede Regulation D, Series of 1930, and Regulation Q, Series of 1935, respectively.

There is also enclosed a supplement to Regulation Q, effective January 1, 1936, governing the maximum rates of interest which member banks of the Federal Reserve System may pay on time and savings deposits after said date.

Yours very truly,

A handwritten signature in cursive script, appearing to read "C. Walsh".

Federal Reserve Agent

**BOARD OF GOVERNORS**  
*of*  
**THE FEDERAL RESERVE SYSTEM**

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**PAYMENT OF INTEREST ON DEPOSITS**

**REGULATION Q**



*This regulation as printed herewith is in the form as revised,  
effective January 1, 1936*

Printed and Distributed by  
THE FEDERAL RESERVE BANK OF DALLAS

## **INQUIRIES REGARDING THIS REGULATION**

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

**SUPPLEMENT TO REGULATION Q**



**ISSUED BY THE BOARD OF GOVERNORS  
OF THE FEDERAL RESERVE SYSTEM**

**Effective January 1, 1936.**

Printed and Distributed by  
**THE FEDERAL RESERVE BANK OF DALLAS**

# MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS DEPOSITS BY MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 3 of its Regulation Q, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates<sup>1</sup> of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(1) **Maximum rate of 2½ per cent.**—No member bank shall pay interest accruing after January 31, 1935, at a rate in excess of 2½ per cent per annum, compounded quarterly,<sup>2</sup> regardless of the basis upon which such interest may be computed,—

(A) On any savings deposit,

(B) On any time deposit having a maturity date six months or more after the date of deposit or payable upon written notice of six months or more,

(C) On any Postal Savings deposit which constitutes a time deposit,

except that a member bank may pay interest on any such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 18, 1934 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

(2) **Maximum rate of 2 per cent.**—No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 2 percent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed,—

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than six months and not less than 90 days after the date of deposit or payable upon written notice of less than six months and not less than 90 days,

except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or,

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<sup>1</sup> The maximum rates of interest payable by member banks of the Federal Reserve System on time and savings deposits as prescribed herein are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

<sup>2</sup> This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

(3) **Maximum rate of 1 per cent.**—No member bank shall pay interest accruing after January 1, 1936, at a rate in excess of 1 per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed,—

(A) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

except that a member bank may pay interest on such deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before December 1, 1935 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date and which may not legally be terminated or modified by such bank at its option or without liability.

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## REGULATION Q

Revised effective January 1, 1936.

(Superseding Regulation Q, Series of 1935)

# PAYMENT OF INTEREST ON DEPOSITS

### AUTHORITY FOR AND SCOPE OF REGULATION

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

This regulation relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Regulation D.

The provisions of this regulation do not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

### SECTION I. DEFINITIONS

(a) **Demand deposits.**—The term “any deposit which is payable on demand”, hereinafter referred to as a “demand deposit”, includes every deposit which is not a “time deposit” or “savings deposit”, as defined below.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposit” and “time deposits, open account”, as defined below.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than 30 days after the date of the deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,<sup>1</sup> and

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit” or a

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<sup>1</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time certificate of deposit” within the meaning of the above definition.

“savings deposit”, with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,<sup>2</sup> or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.<sup>3</sup>

(e) **Savings deposits.**—The term “savings deposit” means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit<sup>4</sup>, or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, and in respect to which deposit—

(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made;

(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor.<sup>5</sup>

The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this regulation except where the pass book is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the pass book is held by the bank as security for a loan. If a pass book is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the pass book in order to make a withdrawal, although the bank may deliver the pass book to a duly authorized agent of the depositor for transmittal to the depositor.

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<sup>2</sup> Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of such period.

<sup>3</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account”, within the meaning of the above definition.

<sup>4</sup> Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

<sup>5</sup> Presentation of a pass book may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of paragraph (2) above as to the person to whom such payment may be made.

Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made.

(f) **Interest.**—The term “interest” means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i. e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor’s balance.

The term “interest” includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed.

## SECTION 2. DEMAND DEPOSITS

(a) **Interest prohibited.**—Except as hereinafter provided, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit.

(b) **Exceptions.**—The prohibition stated in subsection (a) above does not apply to—

(1) Payment of interest accruing before August 24, 1937, on any deposit made by a savings bank as defined in section 12B of the Federal Reserve Act, as amended,<sup>6</sup> or by a mutual savings bank;

(2) Payment of interest accruing before August 24, 1937, on any deposit of public funds<sup>7</sup> made by or on behalf of any State, county,

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<sup>6</sup> Section 12B(c) (7) of the Federal Reserve Act which defines the term “savings bank” is quoted in the Appendix hereto (page 17).

school district, or other subdivision or municipality, or on any deposit of trust funds, if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law when such deposits are made in State banks;

(3) Payment of interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before June 16, 1933 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such date, and which may not legally be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract may be renewed or extended unless it be modified to eliminate any provision for the payment of interest on demand deposits, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to eliminate from any such certificate of deposit or other contract any provision for the payment of interest on demand deposits.

### SECTION 3. MAXIMUM RATE OF INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate prescribed from time to time.**—Except in accordance with the provisions of this regulation, no member bank shall pay interest on any time deposit or savings deposit in any manner, directly or indirectly, or by any method, practice, or device whatsoever. No member bank shall pay interest on any time deposit or savings deposit at a rate in excess of such applicable maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time; and any rate or rates which may be so prescribed by the Board will be set forth in supplements to this regulation, which will be issued in advance of the date upon which such rate or rates become effective.

(b) **Modification of contracts to conform to regulation.**—No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this regulation.

(c) **Member banks limited to maximum rate for State banks.**—The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (i) the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section, or (ii) the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

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<sup>1</sup> Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of "public funds", within the meaning of the above provision.

(d) **Savings deposits received during first five days of month.**—A member bank may pay interest on a savings deposit received during the first five days of any calendar month at the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this regulation, whichever shall first occur.

(e) **Continuance of time deposit status.**—A deposit which was a time deposit at the date of deposit continues to be such until maturity although it has become payable within 30 days, and interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid until maturity upon such deposit. A time deposit or a savings deposit with respect to which notice of withdrawal has been given continues to be such until the expiration of the period of such notice, and interest may be paid upon such deposit until the expiration of the period of such notice at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid upon savings deposits with respect to which notice of intended withdrawal has not actually been required or given. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within 30 days from the date on which such amount is deposited in such bank.<sup>8</sup>

(f) **No interest after maturity or expiration of notice.**—After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

#### SECTION 4. PAYMENT OF TIME DEPOSITS BEFORE MATURITY

(a) **Time deposits payable on a specified date.**—No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in subsection (d) of this section.

(b) **Time deposits payable after a specified period.**—No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in subsection (d) of this section.

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<sup>8</sup> Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of such period.

(c) **Time deposits payable after a specified notice.**—No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in subsection (d) of this section.

(d) **Payment in emergencies.**—In an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency, provided that before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than three months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit three months or longer, and shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than three months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date and maturity as the original deposit.

(e) **Loans upon security of time deposits.**—A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 percent per annum in excess of the rate of interest on the time deposit.

#### SECTION 5. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice.**—A member bank shall observe the requirements set forth below in requiring notice of intended withdrawal of any savings deposit, or in waiving such notice, or in repaying any savings deposit, or part thereof, without requiring such notice, whether such notice of intended withdrawal is required to be given in each case by the terms of the bank's contract with the depositor or may, under such contract, be required by the bank at any time at its option.

(1) If a member bank waive such notice of intended withdrawal as to any amount or percentage of the savings deposits of any depositor, it shall waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(2) If a member bank pay any amount or percentage of the savings deposits of any depositor, without requiring such notice, it shall, upon request and without requiring such notice, pay the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(3) If a member bank require such notice before the payment of any amount or percentage of the savings deposits of any depositor, it shall require such notice before the payment of the same amount or percentage of the savings deposits of any other depositor which are subject to the same requirement.

A member bank is not prevented from paying during the next succeeding interest period, without requiring notice of withdrawal, interest on a savings deposit which has accrued during the preceding interest period, provided that it shall, upon request and without requiring such notice, pay in the same manner interest which has accrued during the preceding interest period on the savings deposits of every other depositor.

**(b) Requirements regarding change of practice.**—No member bank shall change its practice with respect to the requiring or waiving of notice of intended withdrawal of savings deposits except after duly recorded action of its board of directors or of its executive committee properly authorized, and no practice in this respect shall be adopted which does not conform to the requirements of paragraphs (1), (2), or (3) of subsection (a) of this section.

**(c) Change of practice for purpose of discrimination.**—No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits shall be made for the purpose of discriminating in favor of or against any particular depositor or depositors.

**(d) Requirements applicable although no interest paid.**—A member bank shall observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits.

**(e) Loans upon security of savings deposits.**—If it is not the practice of a member bank to require notice of intended withdrawal of savings deposits, no restrictions are imposed by this regulation upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of intended withdrawal of savings deposits or any amount or percentage thereof, such bank may make loans to its depositors upon the security of such deposits and, in each such case, the rate of interest on such loan shall be not less than 2 percent per annum in excess of the rate of interest on the savings deposit.

# APPENDIX

## STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933 and the Banking Act of 1935, provides in part as follows:

Sec. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof:\*\*\*.

\* \* \* \* \*

No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

Section 24 of the Federal Reserve Act, as amended by the Act of February 25, 1927, and the Banking Act of 1935, provides with respect to national banking associations in part as follows:

Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits

shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located.

Section 12B(c) (7) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides as follows:

(c) As used in this section—

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(7) The term "savings bank" means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal; *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.

**BOARD OF GOVERNORS**  
*of*  
**THE FEDERAL RESERVE SYSTEM**

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**RESERVES OF MEMBER BANKS**

**REGULATION D**



*This regulation as printed herewith is in the form as revised,  
effective January 1, 1936*

Printed and Distributed by  
**THE FEDERAL RESERVE BANK OF DALLAS**

## **INQUIRIES REGARDING THIS REGULATION**

Any inquiry relating to this regulation should be addressed to the Federal Reserve bank of the district in which the inquiry arises.

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## REGULATION D

Revised effective January 1, 1936

(Superseding Regulation D, Series of 1930)

# RESERVES OF MEMBER BANKS

## AUTHORITY FOR REGULATION

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

### SECTION 1. DEFINITIONS

(a) **Demand deposits.**—The term “demand deposits” includes all deposits except “time deposits” as defined below.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposit”, “time deposits, open account” and “savings deposits”, as defined below.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than thirty days after the date of the deposit, or

(2) At the expiration of a certain specified time not less than thirty days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than thirty days before the date of repayment,<sup>1</sup> and

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit” or a “savings deposit”, with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than thirty days after the date of the deposit,<sup>2</sup> or prior to the expiration of the period of notice which must be given by the depositor in writing not less than thirty days in advance of withdrawal.<sup>3</sup>

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<sup>1</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time certificate of deposit” within the meaning of the above definition.

<sup>2</sup> Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of such period.

<sup>3</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account”, within the meaning of the above definition.

(e) **Savings deposits.**—The term “savings deposit” means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit,<sup>4</sup> or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, and in respect to which deposit—

(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than thirty days before such withdrawal is made;

(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor.<sup>5</sup>

The presentation by an officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this regulation except where the pass book is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the pass book is held by the bank as security for a loan. If a pass book is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the pass book in order to make a withdrawal, although the bank may deliver the pass book to a duly authorized agent of the depositor for transmittal to the depositor.

Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made.

(f) **Gross demand deposits.**—The term “gross demand deposits” means the sum of all demand deposits, including demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers’ checks (including checks issued by the bank in payment of dividends), letters of credit and travelers’ checks sold for cash, and drafts drawn upon or other authorizations to charge the member bank’s reserve account at the Federal Reserve bank.

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<sup>4</sup> Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes may not be classified as savings deposits.

<sup>5</sup> Presentation of a pass book may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of paragraph (2) above as to the person to whom such payment may be made.

**(g) Cash items in process of collection.**—The term “cash items in process of collection” means—

(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

Items handled as non-cash collections may not be treated as “cash items in process of collection” within the meaning of this regulation.

**(h) Net demand deposits.**—The term “net demand deposits” means gross demand deposits as defined in subsection (f) of this section less the deductions allowed under the provisions of subsection (b) of section 2 of this regulation.

## SECTION 2. COMPUTATION OF RESERVES

**(a) Amounts of reserves to be maintained.**—Every member bank of the Federal Reserve System is required by law to maintain on deposit with the Federal Reserve bank of its district an actual net balance equal to three percent of its time deposits plus—

Seven percent of its net demand deposits if not in a reserve or central reserve city.

Ten percent of its net demand deposits if in a reserve city, except that if located in an outlying district of a reserve city or in territory added to such city by the extension of the city’s corporate limits such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain seven percent reserves against its net demand deposits.

Thirteen percent of its net demand deposits if located in a central reserve city, except that if located in an outlying district of a central reserve city or in territory added to such city by the extension of the city’s corporate limits, such bank may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, be permitted to maintain seven percent or ten percent reserves against its net demand deposits.

Notwithstanding any other provision of this regulation, the actual net balance which each member bank is required to maintain on deposit with the Federal Reserve bank of its district in accordance with the foregoing shall be changed by such percentage, within the limitations prescribed by

law.<sup>6</sup> as the Board of Governors of the Federal Reserve System shall prescribe from time to time pursuant to the sixth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, in order to prevent injurious credit expansion or contraction.

**(b) Deductions allowed in computing reserves.**—In determining the reserve balances required under the terms of this regulation, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in subsection (g) of section 1 of this regulation. Balances “due from other banks” do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks. The word “banks” in the term “due from other banks” refers to incorporated banks and does not include private banks or bankers.<sup>7</sup>

**(c) Availability of cash items as reserve.**—Cash items forwarded to a Federal Reserve bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve bank until the expiration of such time as may be specified in the appropriate time schedule referred to in Regulation J. If a member bank draw against checks before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this regulation.

**(d) Reserves against trust funds.**—A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds 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.

**(e) Continuance of “time deposit” status.**—A deposit which at the time of deposit was a “deposit evidenced by a time certificate of deposit”, “time deposit, open account”, or “savings deposit” continues to be a “time deposit” until maturity or the expiration of the period of notice of withdrawal, although it has become payable within thirty days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank

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<sup>6</sup> The amount of the reserves required to be maintained by any such member bank as a result of any such change may not be less than the amount of the reserves specified above nor more than twice such amount.

<sup>7</sup> A member bank exercising fiduciary powers may not include in balances “due from other banks” amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances “due from other banks”, subject to the provisions of subsection (b) above.

in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after the date upon which such advice is received by the bank.

### SECTION 3. DEFICIENCIES IN RESERVES

#### (a) **Computation of Deficiencies.**—

(1) 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 Board of Governors of the Federal Reserve System may designate from time to time shall be computed on the basis of average daily net deposit balances covering semi-weekly periods. Deficiencies in reserve balances of member banks in all other reserve cities shall be computed on the basis of average daily net deposit balances covering weekly periods. Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances covering semimonthly periods.<sup>8</sup>

(2) 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 balances at the opening of business on the same day; and the semiweekly, weekly, and semimonthly periods referred to in paragraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System.

#### (b) **Penalties.**—

(1) 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.

(2) Such penalties will be assessed at a rate of two percent per annum above the Federal Reserve bank rate applicable to discounts of ninety day commercial paper for member banks, in effect on the first day of the calendar month in which the deficiencies occurred.

(c) **Notice to directors of banks deficient in reserves.**—Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this regulation regarding the maintenance of reserves and the personal liability of the directors permitting violations of the laws.

(d) **Continued deficiencies.**—If, after the notice provided for in subsection (c) of this section 3 has been given, it shall appear that the mem-

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<sup>8</sup> Deficiencies in reserve balances of member banks in outlying sections of central reserve and reserve cities which have been authorized by the Board of Governors of the Federal Reserve System, under the provisions of subsection (a) of section 2 of this regulation, to maintain seven per cent reserves against demand deposits, will also be computed on the basis of average daily net deposit balances covering semimonthly periods.

ber bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should—

(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act; or

(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act; or

(3) In either case, take such other action as the Federal Reserve bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

#### SECTION 4. LOANS AND DIVIDENDS WHILE RESERVES ARE DEFICIENT

It is unlawful for any member bank the reserves of which are 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 in section 3 of this regulation, penalties for deficiencies in reserves are computed on the basis of the average reserve balances for semiweekly, weekly, or semimonthly 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 semiweekly, weekly, or semimonthly period are deficient.

# APPENDIX

## STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act provides in part as follows:

The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided, That*, within the meaning of the provisions of this section regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits".

Every bank, banking association, or trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a reserve city or in territory added to such a city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraph (a) hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall hold and maintain with the Federal reserve bank of its district an actual net balance equal to not less than thirteen per centum of the aggregate amount of its demand deposits and three per centum of its time deposits: *Provided, however*, That if located in the outlying districts of a central reserve city or in territory added to such city by the extension of its corporate charter, it may, upon the affirmative vote of five members of the Board of Governors of the Federal Reserve System, hold and maintain the reserve balances specified in paragraphs (a) or (b) thereof.

Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank on the date of enactment of the Banking Act of 1935 nor more than twice such amount.

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The required 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 Board of Governors of the Federal Reserve System, 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.

In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

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Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Bond Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits.

Section 11 of the Federal Reserve Act provides in part as follows:

The Board of Governors of the Federal Reserve System shall be authorized and empowered: \*\*\*\*\* (c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified \*\*\*.