FEDERAL RESERVE BANK

OF DALLAS

Dallas, Texas, December 29, 1950

RESERVES REQUIRED TO BE MAINTAINED BY MEMBER BANKS WITH FEDERAL RESERVE BANKS

To the Member Banks of the
Eleventh Federal Reserve District:

The Board of Governors of the Federal Reserve System has today announced the adoption of a supplement to Regulation D, which has the effect of increasing reserve requirements of member banks. A copy of the supplement is enclosed.

The Board of Governors has released the following press statement in regard to its action in increasing reserve requirements:

"The Board of Governors has increased the amount of reserves required to be maintained with the Federal Reserve banks by banks which are members of the Federal Reserve System. The increase will become effective according to the following schedule:

ON NET DEMAND DEPOSITS

Central Reserve City Banks	Reserve City Banks	Effective
From 22 to 23 per cent	From 18 to 19 per cent	January 11, 1951
From 23 to 24 per cent	From 19 to 20 per cent	January 25, 1951

Country Banks	Effective
From 12 to 13 per cent	January 16, 1951
From 13 to 14 per cent	February 1, 1951

ON TIME DEPOSITS

Central Reserve and Reserve City Banks	Effective
From 5 to 6 per cent	January 11, 1951

Country Banks	Effective
From 5 to 6 per cent	January 16, 1951

"This action was taken as a further step toward restraining inflationary expansion of bank credit, in accordance with the statement issued by the Board August 18, 1950, that the Board and the Federal Open Market Committee 'are prepared to use all the means at their command to restrain further expansion of bank credit consistent with the policy of maintaining orderly conditions in the Government securities market.'

(Over)

"The volume of bank credit and the money supply have continued to increase despite previous actions by the Federal Reserve and other supervisory agencies, and efforts of individual banks to be restrictive in granting credit. Loans of member banks have increased by about 7 billion dollars since June, reflecting in part seasonal influences and in part accumulation of inventories at rising prices. This is an unprecedented rate of expansion and has contributed to an excessive rise in the money supply. Moreover, with the end of usual seasonal demands for credit and currency, banks will have additional funds available for lending. The purpose of the announced increase in reserve requirements is to absorb such funds and generally to reduce the ability of banks further to expand credit that would add to inflationary pressures. The increase is timed so as to absorb reserves coming into the banks from the post-holiday return flow of currency.

"The effect of this increase will be to raise the required reserves of member banks by a total of approximately two billion dollars which, under our fractional reserve banking system, could otherwise be the basis for about a six-fold increase in bank credit in the banking system as a whole.

"After the increase, reserve requirements at banks other than central reserve city banks will be at the maximum legal limits which prevailed during the war period. Requirements on net demand deposits at central reserve city banks will be two percentage points less than the maximum under existing authority but above requirements that prevailed for these banks during most of the war period."

The supplement to Regulation D should be filed in the ring binder containing current bulletins of this bank and the regulations of the Board of Governors of the Federal Reserve System. Please acknowledge receipt on the enclosed post card.

Yours very truly,

R. R. GILBERT

President

SUPPLEMENT TO REGULATION D

ISSUED BY THE

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

ON DECEMBER 28, 1950

Reserves required to be maintained by member banks with Federal Reserve banks

Pursuant to the provisions of Section 19 of the Federal Reserve Act and Section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

1. If not in a reserve or central reserve city—

(a) 5 per cent of its time deposits until the opening of business on January 16, 1951, and 6 per cent of its time deposits thereafter, plus

(b) 12 per cent of its net demand deposits until the opening of business on January 16, 1951, 13 per cent of its net demand deposits from January 16, 1951 to January 31, 1951, inclusive, and 14 per cent of its net demand deposits thereafter.

2. If in a reserve city (except as to any bank 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, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain the reserves specified in paragraph 1 above)—

(a) 5 per cent of its time deposits until the opening of business on January 11, 1951, and 6 per cent of its time deposits thereafter, plus

(b) 18 per cent of its net demand deposits until the opening of business on January 11, 1951, 19 per cent of its net demand deposits from January 11 to January 24, 1951, inclusive, and 20 per cent of its net demand deposits thereafter.

3. If in a central reserve city (except as to any bank 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, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain the reserves specified in paragraph 1 or 2 above)—

(a) 5 per cent of its time deposits until the opening of business on January 11, 1951, and 6 per cent of its time deposits thereafter, plus

(b) 22 per cent of its net demand deposits until the opening of business on January 11, 1951, 23 per cent of its net demand deposits from January 11 to January 24, 1951, inclusive, and 24 per cent of its net demand deposits thereafter.

The supplements to Regulation D which have previously been issued are hereby revoked and superseded.