

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS

March 15, 1961

REPRINTS OF REGULATIONS K AND Q,  
AND SUPPLEMENT TO REGULATION Q

To All Member Banks in the  
Eleventh Federal Reserve District:

Enclosed are copies of Regulation K, Regulation Q and Supplement to Regulation Q, issued by the Board of Governors of the Federal Reserve System, which have been reprinted to conform with the style of the Code of the Federal Regulations. All outstanding amendments are incorporated in the reprinted copies of the two Regulations.

Member banks are requested to insert these reprints of the Regulations and Supplement in their ring binders containing the Regulations of the Board of Governors and the Bulletins of this bank.

Yours very truly,

Watrous H. Irons

President

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

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**CORPORATIONS DOING FOREIGN BANKING OR  
OTHER FOREIGN FINANCING UNDER  
THE FEDERAL RESERVE ACT**



**REGULATION K**  
(12 CFR 211)

As Amended to November 12, 1958



Print of October 1960

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(This text corresponds to the Code of Federal Regulations,  
Title 12, Chapter II, Part 211, cited as 12 CFR 211)

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## REGULATION K

(12 CFR 211)

As amended to November 12, 1958

# CORPORATIONS DOING FOREIGN BANKING OR OTHER FOREIGN FINANCING UNDER THE FEDERAL RESERVE ACT

### SECTION 211.1—SCOPE AND APPLICATION OF THIS PART

This part is issued by the Board of Governors of the Federal Reserve System (hereinafter called the "Board of Governors") under authority of the Federal Reserve Act. It applies to corporations organized under section 25(a) of that act (U.S.C., title 12, secs. 611-631)\* for the purpose of engaging in international or foreign banking or other international or foreign financial operations, and to the extent specified in § 211.11, to corporations having an agreement or undertaking with the Board of Governors under section 25 of the act (U.S.C., title 12, secs. 601-604).\*

### SECTION 211.2—DEFINITIONS

For the purpose of this part, unless the context otherwise requires—

(a) **"Corporation"** when spelled with a capital "C" means a corporation organized under section 25(a) of the Federal Reserve Act.

(b) **"Banking"** means the business of receiving or paying out deposits, or accepting drafts or bills of exchange.

(c) **"Banking Corporation"** means a Corporation which is engaged in banking.

(d) **"Financing Corporation"** means a Corporation which is not engaged in banking except to the extent that it is required by the Secretary of the Treasury to act as fiscal agent of the United States. A Corporation in existence on July 1, 1955 is a Banking Corporation if it was engaged in banking on that date, or a Financing Corporation if not so engaged on that date.

(e) **"Abroad"** means in one or more foreign countries or dependencies or insular possessions of the United States.

(f) **"Goods"** includes wares, merchandise, commodities and any other tangible personal property (other than money).

(g) **"Person"** includes any individual, and any corporation, partnership, association or other similar organization.

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\* Pertinent portions of this section are printed in the Appendix.

(h) **“Affiliated”** when used with respect to two persons means that, directly or indirectly, either one controls, is controlled by, or is under common control with, the other.

(i) **“Capital and surplus”** means (1) paid in and unimpaired capital and (2) surplus.

#### SECTION 211.3—ORGANIZATION, CORPORATE STRUCTURE AND OWNERSHIP

(a) **Articles of association and organization certificate.**—Any number of natural persons, not less than five, desiring to organize a corporation under section 25(a) of the Federal Reserve Act shall (1) enter into articles of association (see Form F. R. 151,<sup>1</sup> which is suggested as a satisfactory form of articles of association); (2) make an organization certificate on Form F. R. 152,<sup>1</sup>; and (3) forward the articles of association and the organization certificate to the Board of Governors. The articles of association shall specify in general terms the objects for which the Corporation is formed, and may contain any other provisions not inconsistent with law which the Corporation may see fit to adopt for the regulation of its business and the conduct of its affairs. Each person intending to participate in the organization of the Corporation shall sign the articles of association and the organization certificate and shall acknowledge the execution of the latter before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary.

(b) **Name.**—The name of the Corporation is subject to the approval of the Board of Governors, and a preliminary application for that approval may be filed with the Board of Governor on Form F. R. 150.<sup>1</sup> The name shall in no case resemble the name of any other corporation to the extent that it might result in misleading or deceiving the public as to its identity, purpose, connections or affiliations. The name of any Corporation hereafter organized shall so far as practicable indicate the nature of the business contemplated, and shall include the word “international”, “foreign”, “overseas”, or some similar word. No Financing Corporation hereafter organized will be permitted to have the word “bank” or “banking”, or any similar word, as part of its name.

(c) **Authority to commence business.**—After the articles of association and organization certificate have been filed with and approved by, and a preliminary permit to begin business has been issued by, the Board of Governors, the association shall become and be a body corporate, but none of its powers, except such as are incidental and

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<sup>1</sup> Filed as part of original document. Copies available upon request to Federal Reserve System, Washington 25, D. C.

preliminary to its organization, shall be exercised until the Board of Governors has issued to it a final permit to commence business. Before the Board of Governors will issue its final permit to commence business, the president, cashier or secretary, together with at least three of the directors, must certify (1) that each director is a citizen of the United States; (2) that a majority of the shares of capital stock is held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies the controlling interest in which is owned by citizens of the United States; and (3) that of the authorized capital stock specified in the articles of association at least 25 per cent has been paid in in cash and that each shareholder has individually paid in in cash at least 25 per cent of his stock subscription. Thereafter the cashier or secretary shall certify to the payment of the remaining installments as and when each is paid in, in accordance with law.

**(d) Amendments to articles of association.**—The articles of association may contain provisions relative to the procedure whereby amendments thereof may be effected in any manner not inconsistent with section 25(a) of the Federal Reserve Act, other applicable law, and this part. No amendment of the articles of association shall become effective unless and until it shall have been approved by the Board of Governors.

**(e) General requirements as to capital stock.**—No Corporation may be organized under section 25(a) with capital stock of less than \$2,000,000. The par value of each share of stock shall be specified in the articles of association, and no Corporation will be permitted to issue stock of no par value. If there is more than one class of stock, the name and amount of each class and the obligations, rights, and privileges attaching thereto shall be set forth fully in the articles of association. Each class of stock shall be so named, or so described in the stock certificates by which it is represented, as to indicate as clearly as possible its character and any unusual attributes.

**(f) Citizenship of shareholders.**—(1) In order to insure compliance at all times with the requirements of section 25(a) of the Federal Reserve Act relating to the United States citizenship of those who hold, own, or control a majority of the shares of capital stock of a Corporation, such stock shall be issuable and transferable only on the books of the Corporation, and no issue or transfer of stock which would cause a violation of such requirements of law or of related provisions of this part shall be made upon the books of the Corporation. The board of directors of the Corporation, acting directly or

through an agent, may, before making any issue or transfer of stock, require such evidence as in their discretion they may think necessary in order to determine whether or not the issue or transfer of the stock would result in such a violation. The decision of the board of directors in each such case shall be final and conclusive as to, and not subject to question by, any person.

(2) If at any time a change in the status of the holder of any shares of a Corporation causes a violation of the requirements of section 25(a) of the Federal Reserve Act relating to the United States citizenship of those who hold, own, or control a majority of the shares of capital stock of a Corporation, the board of directors shall, when apprised of that fact, forthwith serve on the holder of the shares in question a notice in writing requiring such holder within two months to transfer such shares to a person then eligible to acquire such shares. When such notice has been given by the board of directors, the shares of stock so held shall cease to confer any right to vote or to participate in dividends thereafter declared; and the right to vote and to receive dividends shall resume only after, and only with respect to votes cast and dividends declared after, the shares have been transferred as required above. If on the expiration of two months after such notice the shares shall not have been so transferred, the shares shall promptly be sold at public or private sale by the Corporation, as agent for and for the account of the ineligible holder, to a person then eligible to acquire such shares. In the event such shares cannot be sold for a reasonable price and within a reasonable time at such a public or private sale, the shares will, with the approval of the Board of Governors, be forfeited to the Corporation.

(3) The board of directors shall prescribe in the by-laws of the Corporation appropriate rules for the registration of the shares of stock in accordance with the terms of the law and this part. The certificates of stock issued by the Corporation shall contain provisions sufficient to put the holder on notice of the terms of the law and regulations defining the limitations upon the rights of ownership and transfer.

#### SECTION 211.4—BANKING CORPORATIONS AND FINANCING CORPORATIONS

A Banking Corporation (a) shall not issue or have outstanding any debentures, bonds, promissory notes or similar obligations except promissory notes due within one year evidencing borrowing from banks or bankers, and (b) shall not engage in the business of issuing, underwriting, selling or distributing securities, except to such limited extent as the Board of Governors may, upon application of the Corporation, exempt activities of the Corporation's branch or agency in a foreign

country with respect to obligations of, or obligations unconditionally guaranteed as to principal and interest by, the national government of such country. A Financing Corporation shall not engage in banking except to the extent that it is required by the Secretary of the Treasury to act as fiscal agent of the United States. The Board of Governors may grant permission, subject to such conditions as it may prescribe, for a Banking Corporation to change to a Financing Corporation, or for the reverse.

#### SECTION 211.5—OPERATIONS ABROAD

(a) **General.**—Except as otherwise provided by law or by this part, a Corporation may exercise abroad, through branches or agencies established with the approval of the Board of Governors or through correspondents or other agents, not only the powers specifically set forth in the law or by this part and those incidental thereto, but also such powers as may be usual in the determination of the Board of Governors in connection with the transaction of banking in the case of a Banking Corporation, or other financial operations in the case of a Financing Corporation, in the place in which the Corporation is transacting business. As indicated in § 211.6(e)(2), the activities of a Financing Corporation abroad are limited by the requirement that it shall not, by its activities abroad, engage or participate, directly or indirectly, in certain activities in the United States.

(b) **Branches.**—With the prior approval of the Board of Governors, a Corporation may establish branches or agencies abroad.

#### SECTION 211.6—LIMITED OPERATIONS IN THE UNITED STATES

(a) **General.**—A Corporation shall not carry on any part of its business in the United States except such as shall be incidental to its international or foreign business. It may not engage in the United States in the business of acting as trustee, or in a like fiduciary capacity, or act in the United States as registrar or in any similar capacity with respect to the servicing in the United States of any security issue distributed therein; but it may act as paying agent in the United States with respect to securities issued by a “foreign state” as defined in section 25(b) of the Federal Reserve Act or by a corporation chartered by such a foreign state and not qualified under the laws of the United States or any State (or the District of Columbia) to do business in the United States. A Corporation may not establish any branch in the United States, but with the prior approval of the Board of Governors may establish agencies in the United States for specific purposes, but not generally to carry on the business of the Corporation. Funds of a



Corporation not currently employed in the international or foreign business of the Corporation in accordance with other provisions of this part, if held or invested in the United States, shall be only in the form of (1) cash, (2) deposits with banks, (3) bankers' acceptances or prime open market commercial paper, or (4) direct obligations of the United States or other investment securities of such kinds, and in such amounts, as the Corporation could purchase within the limitations of section 5136 of the Revised Statutes (U.S.C., title 12, sec. 24) if it were a member bank of the Federal Reserve System. Subject to the other provisions of this part, succeeding paragraphs of this section indicate generally the kinds of transactions by a Corporation which may be considered appropriate in the United States.

**(b) Receipt of deposits in United States by Banking Corporations.**—(1) A Banking Corporation may receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions abroad. Such deposits may be either time or demand, and shall be subject to all the requirements of Part 217 of this chapter (Reg. Q) (which relates to the payment of interest on deposits and related matters) in the same manner as if the Corporation were a member bank of the Federal Reserve System; but no such deposit shall be a "savings deposit" as defined in said Part 217 of this chapter. If a Banking Corporation receives deposits in the United States, it shall maintain reserves against such deposits in the same manner and amount (but in no event less in the aggregate than 10 per cent of such deposits) as if it were a member bank of the Federal Reserve System, and shall in like manner submit reports of deposits and be subject to all the requirements of Part 204 of this chapter (Reg. D) (which relates to reserves of member banks).

(2) A deposit received in the United States by a Banking Corporation from a foreign depositor will ordinarily be considered incidental to or for the purpose of carrying out transactions abroad provided the deposit is not to be used to make payments for expenses in the United States of a United States office or representative and in addition the deposit (i) is to be used to make payments for transactions abroad, for goods exported or imported, for other direct costs of export or import, or for carrying out transactions with the Corporation under paragraph (c), or (d) of this section; or (ii) is to be held for reserve or working balance purposes, except that a Banking Corporation shall not receive funds to be held in the United States as time deposits solely for purposes of safekeeping or investment and unrelated to other international or foreign business of the depositor with the Corporation. As used in this paragraph "foreign depositor" means a foreign government, a per-

son conducting business principally at the person's offices or establishment abroad, or a foreign national resident abroad.

(3) A deposit received in the United States by a Banking Corporation from a depositor who is not a foreign depositor will ordinarily be considered incidental to or for the purpose of carrying out transactions abroad provided the deposit is not to be used to make payments for expenses in the United States of a United States office or representative and in addition the deposit (i) is for transmission to a place abroad; or (ii) is to provide collateral or payment for extensions of credit by the Corporation; or (iii) represents proceeds of collections abroad which are to be used to make payments for goods exported or imported or for other direct costs of export or import, or periodically transferred to the depositor's account at another bank; or (iv) represents proceeds of extensions of credit by the Corporation which are to be used for the purposes of the credit extension or to be periodically transferred to the depositor's account at another bank.

**(c) Extensions of credit in United States by Banking Corporations.**—It will ordinarily be considered incidental to the international or foreign business of a Banking Corporation for it to engage in any of the following transactions in the United States with respect to extensions of credit:

(1) As principal or as agent for another bank, issue, confirm, or advise letters of credit or other authorizing instrument (or receive and forward to another bank applications therefor) which contemplate the drawing of "qualifying drafts". As used in this paragraph "qualifying drafts" means drafts or bills of exchange drawn, or written receipts given, to cover specific goods in the process of being (i) exported from or imported into the United States, (ii) temporarily stored in the United States as part of such an exportation or importation, (iii) stored abroad, or (iv) shipped within or between places abroad, or to cover (v) performance of specific contracts at places abroad or of specific international or foreign transactions, (vi) cost of operating ships in international or foreign transportation, or (vii) payments in connection with international or foreign transfers of royalties, copyrights or patent rights or with the rendering of services at, or necessary for carrying out projects at, places abroad.

(2) As principal or as agent for another bank, accept, negotiate, present, discount, purchase, or pay "qualifying drafts", if the Corporation or a bank at a place abroad issued, confirmed or advised the authorizing letter of credit or other authorizing instrument or if the office of the Corporation is named in the authorizing instrument as the place of payment or an optional place of payment thereof.

(3) Accept drafts or bills of exchange which are drawn by a bank or

banker located in a place abroad for the purpose of furnishing dollar exchange as required by the usages of trade in such place.

(4) Purchase, discount, or lend on, documentary or other drafts which the Corporation is to send to a place abroad for collection.

(5) Make advances to, or acquire the obligations of, foreign governments; or, if the advances or acquisitions are for the purpose of financing activities abroad or payment for goods exported or imported or other direct costs of export or import (but not expenses in the United States of a United States office or representative), make advances to, or acquire the obligations of, a person conducting business principally at the person's offices or establishments abroad or a foreign national resident abroad.

(6) Finance by loan, acceptance, or otherwise:

(i) The shipment (but not production) of specific goods which are being exported, or being accumulated for export as part of an existing export financing arrangement of the Corporation; or

(ii) The storage of specific goods abroad or the shipment of specific goods between places abroad; or

(iii) The importation of specific goods into the United States, which may include lending against the shipping documents pending arrival of the goods from a place abroad; or

(iv) In the case of specific goods whose importation into the United States was financed by the Corporation, the delivery of the goods to the purchaser through domestic transport facilities or the assembly or packaging of the goods for resale without essential change in the nature of the product.

**(d) Other activities in United States by Banking Corporations.**—It will ordinarily be considered incidental to the international or foreign business of a Banking Corporation for it to engage in any of the following other activities in the United States:

(1) Buy and sell spot and future foreign exchange.

(2) Receive checks, drafts, bills of exchange, acceptances, notes, bonds, coupons and other securities for collection abroad, and collect such instruments in the United States when received from customers abroad.

(3) Hold securities in safekeeping for, or buy and sell securities upon the order and for the account and risk of, customers abroad with whom other relationships permitted by this part are maintained.

**(e) Activities in United States by Financing Corporations.**—(1) It will ordinarily be considered incidental to the international or foreign business of a Financing Corporation for it to engage in any of the following transactions in the United States:

(i) Finance its own authorized activities (e.g., borrow money or issue its own securities) or hold or invest, in accordance with paragraph (a) of this section, funds not currently employed in the international or foreign business of the Corporation.

(ii) Acquire obligations (by purchasing, discounting, or lending thereon) which cover the export of specific goods (including directly related services and other direct costs of the export, but not expenses in the United States of a United States office or representative), have as a primary obligor a foreign government or a person conducting business principally at the person's offices or establishments abroad, and are acquired by the Corporation as part of such export transaction.

(iii) Make advances to, or acquire (by purchasing, discounting, or lending thereon) the obligations of, foreign governments; or, if the advances or acquisitions are for the purpose of financing activities abroad or payment for goods exported (including directly related services and other direct costs of the export, but not expenses in the United States of a United States office or representative), make advances to, or acquire (by purchasing, discounting, or lending thereon) the obligations of, a person conducting business principally at the person's offices or establishments abroad.

(iv) Issue sight letters of credit undertaking to extend credit authorized under other provisions of this paragraph, but in no event contemplating the accepting of any drafts.

(v) Guarantee advances which the Corporation is authorized to make, or obligations it is authorized to acquire, under other provisions of this paragraph.

(vi) Extend credit, by means of advances, guarantees or otherwise, to a corporation in which the Financing Corporation owns all the voting stock, or all except directors' qualifying shares, to enable such subsidiary to extend credit which the Financing Corporation is itself authorized to extend under other provisions of this paragraph.

(2) A Financing Corporation, in issuing, underwriting, selling or distributing securities abroad, shall not engage or participate in the underwriting, sale or distribution of securities in the United States (except the issuance of its own securities), and may not so engage or participate directly or indirectly or through an agency or on a commission or consignment basis or in any other manner. If a security issue is being sold or distributed partly in and partly outside the United States, a Financing Corporation may not underwrite, even on a standby basis, that portion being sold or distributed in the United States (no matter by whom it is being so sold or distributed).

## SECTION 211.7—ACCEPTANCES BY BANKING CORPORATIONS

(a) **General.**—In accepting drafts or bills of exchange as permitted in §§ 211.5 and 211.6, a Banking Corporation shall comply with the requirements set forth in the succeeding paragraphs of this section.

(b) **Maturity.**—No Banking Corporation shall accept any draft or bill of exchange drawn for the purpose of furnishing dollar exchange having at the date of its acceptance more than three months to run, or accept any other draft or bill of exchange having at the date of its acceptance more than six months to run, exclusive in either case of days of grace.

(c) **Limitations.**—No acceptances shall be made for the account of any one person in an amount aggregating at any time in excess of 10 per cent of the capital and surplus of the Corporation, unless the transaction is fully secured or unless it represents an exportation or importation of goods and there is a primary obligation to reimburse the Corporation which is also guaranteed by a bank or banker. Whenever the aggregate of acceptances outstanding at any time exceeds the amount of the Corporation's capital and surplus, 50 per cent of all the acceptances in excess of such amount up to twice the amount of the capital and surplus, and all the acceptances outstanding in excess of such double amount, (1) shall be fully secured, or (2) shall represent exportation or importation of goods and shall have a primary obligation to reimburse the Corporation which is also guaranteed by a bank or banker. In accepting drafts drawn for the purpose of furnishing dollar exchange, a Banking Corporation shall be subject to all the limitations and requirements of Part 203 of this chapter (Reg. C) (which relates to acceptances by member banks of drafts and bills of exchange) that would apply if it were a member bank of the Federal Reserve System.

## SECTION 211.8—ISSUE OF OBLIGATIONS BY FINANCING CORPORATIONS

(a) **General.**—A Financing Corporation is not required to obtain the approval of the Board of Governors before issuing any of its debentures, bonds, promissory notes or other such obligations, but, as specified in § 211.10(b), it shall in no event have liabilities outstanding at any time exceeding ten times its capital and surplus. Every Financing Corporation shall carry on its business in accordance with sound financial policies, including among other considerations, a proper regard to the relationship between its assets and the maturities of its obligations, so as to give reasonable assurance that the Corporation will be in a position to pay its obligations as they mature. Further requirements are set forth in paragraphs (b), (c) and (d) of this section with respect

to secured obligations, unsecured obligations, and information to be made available.

(b) **Secured obligations.**—All secured obligations issued by a Financing Corporation (except promissory notes due within one year evidencing borrowing from banks or bankers) shall be secured by collateral which, unless placed under the control of the person or persons owning all the obligations secured thereby, shall be transferred and delivered, free of any prior lien, charge, or encumbrance thereon, to a member bank of the Federal Reserve System as the trustee under a trust indenture executed by the Financing Corporation as security for the obligations of the Corporation issued or to be issued thereunder, which trust indenture shall prescribe the general form of such obligations and shall require that every such obligation shall be authenticated by the certificate of the trustee noted thereon.

(c) **Unsecured obligations.**—In the event a Financing Corporation issues or has outstanding any unsecured obligations (except promissory notes due within one year evidencing borrowing from banks or bankers), the Corporation shall comply with the following requirements:

(1) While any such unsecured obligations are outstanding, loans or other credits held by the Corporation, or outstanding with its guarantee, shall not have a maturity of more than ten years.

(2) All unsecured obligations issued by the Corporation (except promissory notes due within one year evidencing borrowing from banks or bankers) shall contain a provision, or shall be issued under an agreement, which shall provide that the Corporation will not, during the time any such obligations remain outstanding:

(i) Issue any obligations, regardless of maturity or payee (except in renewal or retirement of an equivalent amount of indebtedness), if immediately thereafter the fair value of the assets of the Corporation, excluding notes, drafts, bills of exchange and other evidences of indebtedness that are in default as to either principal or interest for a period in excess of six months, would be less than 110 per cent of the aggregate principal amount of all borrowings of the Corporation:

(ii) Mortgage, pledge or otherwise subject any of its assets to any lien or charge to secure any indebtedness for borrowed money or to secure any other obligations of the Corporation, unless each person holding any of the Corporation's unsecured obligations (other than obligations specifically subordinated to all other debt of the Corporation), which would remain outstanding after such transaction, either grants his consent or is provided with security substantially equivalent in value (in proportion to obligations held) to that provided by such mortgage, pledge, lien or charge;

(iii) Sell, lease, assign or otherwise dispose of all or substantially all its assets; or

(iv) Declare or pay any dividend (other than a dividend payable in stock of the Corporation) or authorize or make any other distribution (except upon redemption of preferred stock, including payments made for this purpose into a preferred stock sinking fund, in accordance with law and the articles of association of the Corporation) on any stock of the Corporation otherwise than out of the earned surplus of the Corporation as determined in accordance with generally accepted accounting principles.

(d) **Information.**—No prospectus, circular, letter, advertisement, or other statement published or issued in any form or manner by a Financing Corporation, or by persons underwriting, selling, or distributing an issue of obligations by the Corporation, shall contain any matter to indicate that any obligations issued by such Corporation or the collateral securing same has in any way received the approval of the Board of Governors or any other agency of the United States or that the collateral securing same has been appraised or approved in any way by the Board of Governors or any other agency of the United States. There shall be set forth on the outside front cover page of every prospectus the following statement in capital letters printed in bold-face roman type at least as large as ten-point modern type and at least two points leaded:

These securities have not been approved or disapproved by the Board of Governors of the Federal Reserve System or any other agency of the United States nor has the Board or any other agency of the United States passed upon the accuracy or adequacy of this prospectus. These securities are the obligation solely of (Name of Financing Corporation), and no other individual, organization, or group has any direct or indirect responsibility for their payment.

Within forty days after issuing any obligations (except promissory notes due within one year evidencing borrowing from banks or bankers), a Financing Corporation shall file with the Board of Governors copies of all prospectuses and other literature describing or affecting such issue published by the Corporation or its officers or by persons underwriting, selling or distributing the issue, and shall also file with the Board of Governors the information described in subparagraphs (1) through (4) of this paragraph to the extent, if any, that such information is not contained in such prospectuses. The information described in subparagraphs (1) through (4) of this paragraph is as follows:

(1) The amount of the funded debt outstanding and to be created by the obligations offered, including the net price received and to be

received by the Corporation for such obligations, with a brief description of the date, maturity, and character of such debt, rate of interest, character of amortization provisions, and the collateral, if any, provided or to be provided therefor, and a summarized statement of the conditions, if any, under which substitution of collateral is permitted, and if substitution is permissible without notice, a specific statement to that effect.

(2) A balance sheet showing all assets and liabilities, including contingent liabilities, of the Corporation with supporting schedules in the form prescribed by the Board of Governors for reports of condition (Form F.R. 314)<sup>2</sup> and an analysis of surplus showing how and from what sources such surplus was created, all as of the close of business on the date of issuance of the obligations, and giving effect thereto.

(3) A copy of any underlying agreements or indentures affecting the obligations.

(4) A copy of the opinion or opinions of counsel as to the legality of the issue, the validity of any indenture, and the sufficiency of any transfers of collateral executed under any indenture.

#### SECTION 211.9—INVESTMENTS IN STOCK OF OTHER CORPORATIONS

(a) **General.**—With the prior consent of the Board of Governors and subject to the provisions of section 25(a) of the Federal Reserve Act, and this part, a Corporation may purchase and hold stock in other corporations. The succeeding paragraphs of this section indicate the circumstances in which such consent may be granted upon individual application, those in which such consent is ordinarily not granted, and those in which general consent may be granted upon application as to types of situations. Any consent granted by the Board may be conditional, and the conditions prescribed may apply to activities of the Corporation and also to activities of the corporation in which stock is purchased or held. A Corporation may purchase and hold stock where such purchase is necessary to prevent a loss upon a debt previously contracted in good faith; but stock so acquired shall be disposed of within six months from the date of acquisition unless such time is extended by the Board of Governors. If a Corporation makes a permissible purchase of stock, but a later change in circumstances or in this part causes the holding of the stock to be no longer permissible, the Corporation shall dispose of the stock, or the nonconformity with this part shall otherwise be corrected, as promptly as practicable and in any event within six months unless such time is extended by the Board of Governors. As used in this section, the term “stock” includes all certificates of ownership.

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<sup>2</sup> See § 262.5 of this chapter. [The Board's Rules of Procedure.]



(b) **By Banking Corporations.**—Consent of the Board of Governors for a Banking Corporation to purchase and hold stock in other corporations will not be granted except upon individual application setting forth the relevant facts and circumstances. The Board of Governors ordinarily will not grant consent for a Banking Corporation to purchase and hold stock in a corporation not engaged in banking or closely related activities.

(c) **By Financing Corporations.**—Subject to applicable requirements of law and of this part and upon application setting forth the proposed program of the Financing Corporation, the Board of Governors may grant its general consent for a Financing Corporation to purchase and hold stock, up to such amounts and in such circumstances as the Board may prescribe, in generally designated types of corporations which are not engaged in banking and also are neither incorporated, nor qualified to do business in the United States, under the laws of the United States or any State (or the District of Columbia), provided such stock is purchased from a foreign seller by negotiations in which no United States office or establishment of the seller participates, and provided further that such purchase or holding does not cause the Financing Corporation to be affiliated with any person engaged in banking or with any person the stock of which the Corporation would be forbidden to purchase or hold under paragraph (d) of this section. In any other instance consent of the Board of Governors for a Financing Corporation to purchase and hold stock will not be granted, except in special cases upon individual application setting forth the relevant facts and circumstances. The Board of Governors ordinarily will not grant consent for a Financing Corporation to purchase and hold stock in a corporation engaged in banking.

(d) **Statutory limitations.**—Under section 25(a) of the Federal Reserve Act, the following limitations apply to the purchase or holding of stock by a Corporation:

(1) The corporation whose stock is purchased or held (i) shall be organized under section 25(a) of the Federal Reserve Act, the laws of any foreign country or a colony or dependency thereof, or the laws of any State, dependency, or insular possession of the United States; and (ii) shall not be engaged in the general business of buying or selling goods in the United States; and (iii) shall not be transacting any business in the United States except such as in the judgment of the Board of Governors may be incidental to its international or foreign business.

(2) Except with the prior approval of the Board of Governors in addition to any consent of the Board of Governors otherwise required, a Corporation shall not invest an amount in excess of 15 per cent of its capital and surplus in the stock of any one corporation engaged in the

business of banking, or an amount in excess of 10 per cent of its capital and surplus in the stock of any other kind of corporation.

(3) A Corporation shall not purchase, own, or hold any stock in any other corporation organized under section 25(a) of the Federal Reserve Act or under the laws of any State, which is in substantial competition therewith, or which holds stock in corporations which are in substantial competition with the purchasing Corporation.

#### SECTION 211.10—GENERAL LIMITATIONS AND RESTRICTIONS

(a) **Liabilities of one borrower.**—The total liabilities to a Corporation of any person or government for money borrowed shall at no time exceed in the case of a Banking Corporation 10 per cent of its capital and surplus, or in the case of a Financing Corporation 50 per cent thereof. For the purposes of this paragraph, the cost to a Corporation of any stock owned by it shall, unless otherwise specified by the Board of Governors in a particular case, be treated as if it were a liability of the issuer of the stock for money borrowed; all bonds, notes or other such obligations, whether or not purchased in the open market, shall be treated as such a liability; the liabilities of a partnership or firm shall include those of the several members thereof; the liabilities of a corporation shall include all liabilities incurred by any subsidiary of the corporation for the benefit of the corporation; and the liabilities of a foreign government shall include those of all its departments or agencies which derive their current funds principally from the general tax revenues of the foreign government. The limitations contained in this paragraph shall not apply (1) to obligations in the form of drafts or bills of exchange drawn in good faith against actually existing values; (2) to obligations arising out of the discount of commercial or business paper actually owned by the person negotiating the same; (3) to the liability of a customer on account of an acceptance made by the Corporation for his account unless the Corporation itself holds the acceptance or the acceptance has matured and the customer has failed to place the Corporation in funds to cover payment of the acceptances; (4) to the extent that liabilities are direct obligations of the United States or are secured or covered by unconditional guarantees, commitments, or agreements to take over or to purchase, made by the United States or by any department or establishment of, or corporation wholly owned by, the United States or by the International Bank for Reconstruction and Development or the International Finance Corporation; (5) to a direct obligation of, or obligation unconditionally guaranteed by, a foreign government or its appropriate financial or central banking authority, and with respect to which an institution described in subparagraph (4) of this paragraph has given an unconditional guarantee,

commitment or agreement to take over or to purchase (or has accepted a participation) which covers only a portion of the obligation (or a portion of the total credit, in the case of a participation), but covers it to the extent of at least 25 per cent and in such manner that any default to the Corporation will necessarily include a default to the governmental agency (any such partial but concurrent guarantee, commitment, agreement or participation by such an institution being hereinafter called a "proportionate governmental guarantee"); (6) in the case of a Financing Corporation, to any obligation which is subject to a "proportionate governmental guarantee" and does not exceed 100 per cent of the Corporation's capital and surplus; (7) to direct obligations of the national government of a foreign country in which the Corporation has a branch or agency, or obligations fully and unconditionally guaranteed as to principal and interest by such government, provided such branch or agency has outstanding equal or greater liabilities payable in the same currency; or (8) to such other classes of transactions at a branch or agency of a Corporation in a foreign country as the Board of Governors may, upon application of the Corporation, exclude from the limitations of this paragraph due to special circumstances surrounding such transactions in such country.

(b) **Aggregate liabilities of Corporation.**—Except with the prior permission of the Board of Governors, the aggregate outstanding liabilities of (1) a Banking Corporation on account of acceptances, monthly average domestic and foreign deposits, borrowings, guaranties, endorsements and any other such obligations, or (2) a Financing Corporation on account of debentures, bonds, notes, guaranties, endorsements and any other such obligations, shall not exceed ten times the amount of the Corporation's capital and surplus. In determining the amount of the liabilities within the meaning of this paragraph, endorsements of bills of exchange having not more than six months to run, drawn and accepted by others, shall not be included.

(c) **Relations of Financing Corporations with affiliated banks.**—Whenever a Financing Corporation is affiliated with a bank in the United States, such Corporation shall not incur any liability to such bank that would cause the total liabilities of such Corporation to such bank to exceed 10 per cent of the capital and surplus of such bank, or cause the total liabilities to such bank of all Financing Corporations affiliated with such bank to exceed 20 per cent of such capital and surplus. For the purposes of this paragraph, a Financing Corporation incurs a liability to a bank whenever such bank or any organization affiliated with such bank (other than such Financing Corporation or any organization controlled by it) makes (i) any investment in, or advance on the collateral security of, capital stock or obligations of

such Corporation or any organization controlled by it, or (ii) any loan or extension of credit to, or any purchase under repurchase agreement from, such Corporation or any organization controlled by it.

(d) **Sale of securities with guaranty or endorsement.**—Whenever a Corporation sells, discounts, or negotiates with its endorsement or guaranty any securities, notes, drafts, bills of exchange, acceptances, bankers' acceptances, or other evidence of indebtedness, it shall enter on its books a proper record thereof, describing in detail each such evidence of indebtedness so sold, discounted, or negotiated, the amounts thereof, the parties thereto, the maturity thereof, and the nature of the Corporation's liability thereon. Every financial statement of the Corporation submitted to the Board of Governors or made public in any way shall show the aggregate amount of all such liabilities outstanding as of the date on which such statement purports to show the financial condition of the Corporation.

(e) **Reports.**—Each Corporation shall make at least two reports annually to the Board of Governors at such times and in such form as the Board may require. The Board may, in its discretion, require that statements of condition or such other reports as it may specify be published or made available for public inspection.

(f) **Examinations.**—Each Corporation shall be examined at least once a year by examiners appointed by the Board of Governors. Each Corporation shall obtain and make available to such examiners, among other things, such information as to the earnings, finances, management and other aspects of any corporation whose stock is held by the Corporation as may be appropriate for appraising such investment and determining its suitability. When required by the Board of Governors, each Corporation shall cause any organization controlled by it to permit such examiners to examine such organization. The cost of examinations shall be fixed by the Board of Governors and paid by the Corporation.

(g) **Amendments.**—This part is subject to amendment by the Board of Governors from time to time.

SECTION 211.11—CORPORATIONS WITH AGREEMENTS UNDER  
SECTION 25 OF THE FEDERAL RESERVE ACT

In addition to any other requirements to which it may be subject, no corporation having an agreement or undertaking with the Board of Governors under section 25 of the Federal Reserve Act shall purchase or hold any asset, or otherwise exercise any of its powers in the United States or abroad in any manner, which would not be permissible under the provisions of this part if such corporation were a Banking Corporation.

## APPENDIX

### STATUTORY PROVISIONS

Section 25 of the Federal Reserve Act reads in part as follows:

#### **Capital and surplus required to exercise powers**

**Sec. 25.** Any national banking association possessing a capital and surplus of \$1,000,000 or more may file application with the Board of Governors of the Federal Reserve System for permission to exercise, upon such conditions and under such regulations as may be prescribed by the said board, either or both of the following powers:

#### **Establishment of foreign branches**

First. To establish branches in foreign countries or dependencies or insular possessions of the United States for the furtherance of the foreign commerce of the United States, and to act if required to do so as fiscal agents of the United States.

#### **Purchase of stock in corporations engaged in foreign banking**

Second. To invest an amount not exceeding in the aggregate ten per centum of its paid-in capital stock and surplus in the stock of one or more banks or corporations chartered or incorporated under the laws of the United States or of any State thereof, and principally engaged in international or foreign banking, or banking in a dependency or insular possession of the United States either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions.

\* \* \* \* \*

#### **Application for permission to exercise powers**

Such application shall specify the name and capital of the banking association filing it, the powers applied for, and the place or places where the banking or financial operations proposed are to be carried on. The Board of Governors of the Federal Reserve System shall have power to approve or to reject such application in whole or in part if for any reason the granting of such application is deemed inexpedient, and shall also have power from time to time to increase or decrease the number of places where such banking operations may be carried on.

#### **Examinations and reports of condition**

Every national banking association operating foreign branches shall be required to furnish information concerning the condition of such branches to the Comptroller of the Currency upon demand, and every member bank investing in the capital stock of banks or corporations described above shall be required to furnish information concerning the

condition of such banks or corporations to the Board of Governors of the Federal Reserve System upon demand, and the Board of Governors of the Federal Reserve System may order special examinations of the said branches, banks, or corporations at such time or times as it may deem best.

### **Agreement to restrict operations**

Before any national bank shall be permitted to purchase stock in any such corporation the said corporation shall enter into an agreement or undertaking with the Board of Governors of the Federal Reserve System to restrict its operations or conduct its business in such manner or under such limitations and restrictions as the said board may prescribe for the place or places wherein such business is to be conducted. If at any time the Board of Governors of the Federal Reserve System shall ascertain that the regulations prescribed by it are not being complied with, said board is hereby authorized and empowered to institute an investigation of the matter and to send for persons and papers, subpoena witnesses, and administer oaths in order to satisfy itself as to the actual nature of the transactions referred to. Should such investigation result in establishing the failure of the corporation in question, or of the national bank or banks which may be stockholders therein, to comply with the regulations laid down by the said Board of Governors of the Federal Reserve System, such national banks may be required to dispose of stockholdings in the said corporation upon reasonable notice.

\* \* \* \* \*

Section 25(a) of the Federal Reserve Act reads as follows:

### **Organization**

**Sec. 25(a).** Corporations to be organized for the purpose of engaging in international or foreign banking or other international or foreign financial operations, or in banking or other financial operations in a dependency or insular possession of the United States, either directly or through the agency, ownership, or control of local institutions in foreign countries, or in such dependencies or insular possessions as provided by this section, and to act when required by the Secretary of the Treasury as fiscal agents of the United States, may be formed by any number of natural persons, not less in any case than five: *Provided*, That nothing in this section shall be construed to deny the right of the Secretary of the Treasury to use any corporation organized under this section as depositaries in Panama and the Panama Canal Zone, or in the Philippine Islands and other insular possessions and dependencies of the United States.

**Articles of association**

Such persons shall enter into articles of association which shall specify in general terms the objects for which the association is formed and may contain any other provisions not inconsistent with law which the association may see fit to adopt for the regulation of its business and the conduct of its affairs.

**Execution of articles of association; contents of organization certificate**

Such articles of association shall be signed by all of the persons intending to participate in the organization of the corporation and, thereafter, shall be forwarded to the Board of Governors of the Federal Reserve System and shall be filed and preserved in its office. The persons signing the said articles of association shall, under their hands, make an organization certificate which shall specifically state:

First. The name assumed by such corporation, which shall be subject to the approval of the Board of Governors of the Federal Reserve System.

Second. The place or places where its operations are to be carried on.

Third. The place in the United States where its home office is to be located.

Fourth. The amount of its capital stock and the number of shares into which the same shall be divided.

Fifth. The names and places of business or residence of the persons executing the certificate and the number of shares to which each has subscribed.

Sixth. The fact that the certificate is made to enable the persons subscribing the same, and all other persons, firms, companies, and corporations, who or which may thereafter subscribe to or purchase shares of the capital stock of such corporation, to avail themselves of the advantages of this section.

**Filing organization certificate; issuance of permit**

The persons signing the organization certificate shall duly acknowledge the execution thereof before a judge of some court of record or notary public, who shall certify thereto under the seal of such court or notary, and thereafter the certificate shall be forwarded to the Board of Governors of the Federal Reserve System to be filed and preserved in its office. Upon duly making and filing articles of association and an organization certificate, and after the Board of Governors of the Federal Reserve System has approved the same and issued a permit to begin business, the association shall become and be a body corporate,

and as such and in the name designated therein shall have power to adopt and use a corporate seal, which may be changed at the pleasure of its board of directors; to have succession for a period of twenty years unless sooner dissolved by the act of the shareholders owning two-thirds of the stock or by an Act of Congress or unless its franchises become forfeited by some violation of law; to make contracts; to sue and be sued, complain, and defend in any court of law or equity; to elect or appoint directors, all of whom shall be citizens of the United States; and, by its board of directors, to appoint such officers and employees as may be deemed proper, define their authority and duties, require bonds of them, and fix the penalty thereof, dismiss such officers or employees, or any thereof, at pleasure and appoint others to fill their places; to prescribe, by its board of directors, by-laws not inconsistent with law or with the regulations of the Board of Governors of the Federal Reserve System regulating the manner in which its stock shall be transferred, its directors elected or appointed, its officers and employees appointed, its property transferred, and the privileges granted to it by law exercised and enjoyed.

#### **Powers; regulations of Board of Governors of the Federal Reserve System**

Each corporation so organized shall have power, under such rules and regulations as the Board of Governors of the Federal Reserve System may prescribe:

##### **Banking powers**

(a) To purchase, sell, discount, and negotiate, with or without its indorsement or guaranty, notes, drafts, checks, bills of exchange, acceptances, including bankers' acceptances, cable transfers, and other evidences of indebtedness; to purchase and sell, with or without its indorsement or guaranty, securities, including the obligations of the United States or of any State thereof but not including shares of stock in any corporation except as herein provided; to accept bills or drafts drawn upon it subject to such limitations and restrictions as the Board of Governors of the Federal Reserve System may impose; to issue letters of credit; to purchase and sell coin, bullion, and exchange; to borrow and to lend money; to issue debentures, bonds, and promissory notes under such general conditions as to security and such limitations as the Board of Governors of the Federal Reserve System may prescribe, but in no event having liabilities outstanding thereon at any one time exceeding ten times its capital stock and surplus; to receive deposits outside of the United States and to receive only such deposits within the United States as may be incidental to or for the purpose of carrying out transactions in foreign countries or dependencies or



insular possessions of the United States; and generally to exercise such powers as are incidental to the powers conferred by this Act or as may be usual, in the determination of the Board of Governors of the Federal Reserve System, in connection with the transaction of the business of banking or other financial operations in the countries, colonies, dependencies, or possessions in which it shall transact business and not inconsistent with the powers specifically granted herein. Nothing contained in this section shall be construed to prohibit the Board of Governors of the Federal Reserve System, under its power to prescribe rules and regulations, from limiting the aggregate amount of liabilities of any or all classes incurred by the corporation and outstanding at any one time. Whenever a corporation organized under this section receives deposits in the United States authorized by this section it shall carry reserves in such amounts as the Board of Governors of the Federal Reserve System may prescribe, but in no event less than 10 per centum of its deposits.

### **Branches**

(b) To establish and maintain for the transaction of its business branches or agencies in foreign countries, their dependencies or colonies, and in the dependencies or insular possessions of the United States, at such places as may be approved by the Board of Governors of the Federal Reserve System and under such rules and regulations as it may prescribe, including countries or dependencies not specified in the original organization certificate.

### **Ownership of stock in other corporations**

(c) With the consent of the Board of Governors of the Federal Reserve System to purchase and hold stock or other certificates of ownership in any other corporation organized under the provisions of this section, or under the laws of any foreign country or a colony or dependency thereof, or under the laws of any State, dependency, or insular possession of the United States but not engaged in the general business of buying or selling goods, wares, merchandise or commodities in the United States, and not transacting any business in the United States except such as in the judgment of the Board of Governors of the Federal Reserve System may be incidental to its international or foreign business: *Provided, however,* That, except with the approval of the Board of Governors of the Federal Reserve System, no corporation organized hereunder shall invest in any one corporation an amount in excess of 10 per centum of its own capital and surplus, except in a corporation engaged in the business of banking, when 15 per centum of its capital and surplus may be so invested: *Provided further,* That no corporation organized hereunder shall purchase, own, or hold stock or certificates of ownership in any other corporation organized hereunder

or under the laws of any State which is in substantial competition therewith, or which holds stock or certificates of ownership in corporations which are in substantial competition with the purchasing corporation.

### **Purchase of stock to prevent loss on debt previously contracted**

Nothing contained herein shall prevent corporations organized hereunder from purchasing and holding stock in any corporation where such purchase shall be necessary to prevent a loss upon a debt previously contracted in good faith; and stock so purchased or acquired in corporations organized under this section shall within six months from such purchase be sold or disposed of at public or private sale unless the time to so dispose of same is extended by the Board of Governors of the Federal Reserve System.

### **Restrictions on business in United States**

No corporation organized under this section shall carry on any part of its business in the United States except such as, in the judgment of the Board of Governors of the Federal Reserve System, shall be incidental to its international or foreign business: *And provided further,* That except such as is incidental and preliminary to its organization no such corporation shall exercise any of the powers conferred by this section until it has been duly authorized by the Board of Governors of the Federal Reserve System to commence business as a corporation organized under the provisions of this section.

### **Corporation trading in commodities or attempting to control prices**

No corporation organized under this section shall engage in commerce or trade in commodities except as specifically provided in this section, nor shall it either directly or indirectly control or fix or attempt to control or fix the price of any such commodities. The charter of any corporation violating this provision shall be subject to forfeiture in the manner hereinafter provided in this section. It shall be unlawful for any director, officer, agent, or employee of any such corporation to use or to conspire to use the credit, the funds, or the power of the corporation to fix or control the price of any such commodities, and any such person violating this provision shall be liable to a fine of not less than \$1,000 and not exceeding \$5,000 or imprisonment not less than one year and not exceeding five years, or both, in the discretion of the court.

### **Capital stock**

No corporation shall be organized under the provisions of this section with a capital stock of less than \$2,000,000, one-quarter of which must be paid in before the corporation may be authorized to begin business.

and the remainder of the capital stock of such corporation shall be paid in installments of at least 10 per centum on the whole amount to which the corporation shall be limited as frequently as one installment at the end of each succeeding two months from the time of the commencement of its business operations until the whole of the capital stock shall be paid in: *Provided, however,* That whenever \$2,000,000 of the capital stock of any corporation is paid in the remainder of the corporation's capital stock or any unpaid part of such remainder may, with the consent of the Board of Governors of the Federal Reserve System and subject to such regulations and conditions as it may prescribe, be paid in upon call from the board of directors; such unpaid subscriptions, however, to be included in the maximum of 10 per centum of the national bank's capital and surplus which a national bank is permitted under the provisions of this Act to hold in stock of corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended: *Provided further,* That no such corporation shall have liabilities outstanding at any one time upon its debentures, bonds, and promissory notes in excess of ten times its paid-in capital and surplus. The capital stock of any such corporation may be increased at any time, with the approval of the Board of Governors of the Federal Reserve System, by a vote of two-thirds of its shareholders or by unanimous consent in writing of the shareholders without a meeting and without a formal vote, but any such increase of capital shall be fully paid in within ninety days after such approval; and may be reduced in like manner, provided that in no event shall it be less than \$2,000,000. No corporation, except as herein provided, shall during the time it shall continue its operations, withdraw or permit to be withdrawn, either in the form of dividends or otherwise, any portion of its capital. Any national banking association may invest in the stock of any corporation organized under the provisions of this section, but the aggregate amount of stock held in all corporations engaged in business of the kind described in this section and in section 25 of the Federal Reserve Act as amended shall not exceed 10 per centum of the subscribing bank's capital and surplus.

#### **Citizenship of stockholders**

A majority of the shares of the capital stock of any such corporation shall at all times be held and owned by citizens of the United States, by corporations the controlling interest in which is owned by citizens of the United States, chartered under the laws of the United States or of a State of the United States, or by firms or companies, the controlling interest in which is owned by citizens of the United States.

**Members of Board of Governors of the Federal Reserve System  
as directors, officers, or stockholders**

No member of the Board of Governors of the Federal Reserve System shall be an officer or director of any corporation organized under the provisions of this section, or of any corporation engaged in similar business organized under the laws of any State, nor hold stock in any such corporation, and before entering upon his duties as a member of the Board of Governors of the Federal Reserve System he shall certify under oath to the Secretary of the Treasury that he has complied with this requirement.

**Shareholders' liability; corporation not to become member of  
Federal reserve bank**

Shareholders in any corporation organized under the provisions of this section shall be liable for the amount of their unpaid stock subscriptions. No such corporation shall become a member of any Federal reserve bank.

**Forfeiture of charter for violation of law**

Should any corporation organized hereunder violate or fail to comply with any of the provisions of this section, all of its rights, privileges, and franchises derived herefrom may thereby be forfeited. Before any such corporation shall be declared dissolved, or its rights, privileges, and franchises forfeited, any noncompliance with, or violation of such laws shall, however, be determined and adjudged by a court of the United States of competent jurisdiction, in a suit brought for that purpose in the district or territory in which the home office of such corporation is located, which suit shall be brought by the United States at the instance of the Board of Governors of the Federal Reserve System or the Attorney General. Upon adjudication of such noncompliance or violation, each director and officer who participated in, or assented to, the illegal act or acts, shall be liable in his personal or individual capacity for all damages which the said corporation shall have sustained in consequence thereof. No dissolution shall take away or impair any remedy against the corporation, its stockholders, or officers for any liability or penalty previously incurred.

**Voluntary liquidation**

Any such corporation may go into voluntary liquidation and be closed by a vote of its shareholders owning two-thirds of its stock.

**Insolvency; appointment of receiver**

Whenever the Board of Governors of the Federal Reserve System shall become satisfied of the insolvency of any such corporation, it may appoint a receiver who shall take possession of all of the property and

assets of the corporation and exercise the same rights, privileges, powers, and authority with respect thereto as are now exercised by receivers of national banks appointed by the Comptroller of the Currency of the United States: *Provided, however,* That the assets of the corporation subject to the laws of other countries or jurisdictions shall be dealt with in accordance with the terms of such laws.

### **Stockholders' meetings; records; reports; examinations**

Every corporation organized under the provisions of this section shall hold a meeting of its stockholders annually upon a date fixed in its by-laws, such meeting to be held at its home office in the United States. Every such corporation shall keep at its home office books containing the names of all stockholders thereof, and the names and addresses of the members of its board of directors, together with copies of all reports made by it to the Board of Governors of the Federal Reserve System. Every such corporation shall make reports to the Board of Governors of the Federal Reserve System at such times and in such form as it may require; and shall be subject to examination once a year and at such other times as may be deemed necessary by the Board of Governors of the Federal Reserve System by examiners appointed by the Board of Governors of the Federal Reserve System, the cost of such examinations, including the compensation of the examiners, to be fixed by the Board of Governors of the Federal Reserve System and to be paid by the corporation examined.

### **Dividends and surplus fund**

The directors of any corporation organized under the provisions of this section may, semiannually, declare a dividend of so much of the net profits of the corporation as they shall judge expedient; but each corporation shall, before the declaration of a dividend, carry one-tenth of its net profits of the preceding half year to its surplus fund until the same shall amount to 20 per centum of its capital stock.

### **Taxation**

Any corporation organized under the provisions of this section shall be subject to tax by the State within which its home office is located in the same manner and to the same extent as other corporations organized under the laws of that State which are transacting a similar character of business. The shares of stock in such corporation shall also be subject to tax as the personal property of the owners or holders thereof in the same manner and to the same extent as the shares of stock in similar State corporations.

**Extension of corporate existence**

Any corporation organized under the provisions of this section may at any time within the two years next previous to the date of the expiration of its corporate existence, by a vote of the shareholders owning two-thirds of its stock, apply to the Board of Governors of the Federal Reserve System for its approval to extend the period of its corporate existence for a term of not more than twenty years, and upon certified approval of the Board of Governors of the Federal Reserve System such corporation shall have its corporate existence for such extended period unless sooner dissolved by the act of the shareholders owning two-thirds of its stock, or by an Act of Congress or unless its franchise becomes forfeited by some violation of law.

**Conversion of State corporation into Federal corporation**

Any bank or banking institution, principally engaged in foreign business, incorporated by special law of any State or of the United States or organized under the general laws of any State or of the United States and having an unimpaired capital sufficient to entitle it to become a corporation under the provisions of this section may, by the vote of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, with the approval of the Board of Governors of the Federal Reserve System, be converted into a Federal corporation of the kind authorized by this section with any name approved by the Board of Governors of the Federal Reserve System: *Provided, however,* That said conversion shall not be in contravention of the State law. In such case the articles of association and organization certificate may be executed by a majority of the directors of the bank or banking institution, and the certificate shall declare that the owners of at least two-thirds of the capital stock have authorized the directors to make such certificate and to change or convert the bank or banking institution into a Federal corporation. A majority of the directors, after executing the articles of association and the organization certificate, shall have power to execute all other papers and to do whatever may be required to make its organization perfect and complete as a Federal corporation. The shares of any such corporation may continue to be for the same amount each as they were before the conversion, and the directors may continue to be directors of the corporation until others are elected or appointed in accordance with the provisions of this section. When the Board of Governors of the Federal Reserve System has given to such corporation a certificate that the provisions of this section have been complied with, such corporation and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties,

liabilities, and regulations, in all respects, as shall have been prescribed by this section for corporations originally organized hereunder.

### **Criminal offenses of officers and employees**

Every officer, director, clerk, employee, or agent of any corporation organized under this section who embezzles, abstracts, or willfully misapplies any of the moneys, funds, credits, securities, evidences of indebtedness or assets of any character of such corporation; or who, without authority from the directors, issues or puts forth any certificate of deposit, draws any order or bill of exchange, makes any acceptance, assigns any note, bond, debenture, draft, bill of exchange, mortgage, judgment, or decree; or who makes any false entry in any book, report, or statement of such corporation with intent, in either case, to injure or defraud such corporation or any other company, body politic or corporate, or any individual person, or to deceive any officer of such corporation, the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of any such corporation; and every receiver of any such corporation and every clerk or employee of such receiver who shall embezzle, abstract, or willfully misapply or wrongfully convert to his own use any moneys, funds, credits, or assets of any character which may come into his possession or under his control in the execution of his trust or the performance of the duties of his employment; and every such receiver or clerk or employee of such receiver who shall, with intent to injure or defraud any person, body politic or corporate, or to deceive or mislead the Board of Governors of the Federal Reserve System, or any agent or examiner appointed to examine the affairs of such receiver, shall make any false entry in any book, report, or record of any matter connected with the duties of such receiver; and every person who with like intent aids or abets any officer, director, clerk, employee, or agent of any corporation organized under this section, or receiver or clerk or employee of such receiver as aforesaid in any violation of this section, shall upon conviction thereof be imprisoned for not less than two years nor more than ten years, and may also be fined not more than \$5,000 in the discretion of the court.

### **Representation that United States is liable for obligations**

Whoever being connected in any capacity with any corporation organized under this section represents in any way that the United States is liable for the payment of any bond or other obligation, or the interest thereon, issued or incurred by any corporation organized hereunder, or that the United States incurs any liability in respect of any act or omission of the corporation, shall be punished by a fine of not more than \$10,000 and by imprisonment for not more than five years.

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

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**PAYMENT OF INTEREST ON DEPOSITS**



**REGULATION Q**  
(12 CFR 217)

As amended effective October 1, 1959





## **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 Q

(12 CFR 217)

As amended effective October 1, 1959

### PAYMENT OF INTEREST ON DEPOSITS \*

#### SECTION 217.0—SCOPE OF PART

(a) This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are cited in the note [Appendix] preceding this section:

(b) This part 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 Part 204 of this chapter.

(c) The provisions of this part 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 217.1—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 in this section.

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

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or nonnegotiable 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 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

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\* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 217; cited as 12 CFR 217.

(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 “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 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 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;

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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.

<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.

(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 part 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.

The term "savings deposit" also means a deposit evidenced by a written receipt or agreement although not by a pass book, consisting of funds of the kind described above in this paragraph and in respect to which deposit 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, and withdrawals are permitted only through payment to the depositor himself but not to any other person whether or not acting for the depositor.<sup>5a</sup>

#### SECTION 217.2—DEMAND DEPOSITS

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

Within this part, any payment to or for the account of any depositor

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<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 this subparagraph as to the person to whom such payment may be made.

<sup>5a</sup> Payment may be made to the depositor over the counter, through the mails or otherwise.

as compensation for the use of funds constituting a deposit shall be considered interest.

(b) **Exceptions.**—The prohibition stated in paragraph (a) of this section 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 (49 Stat. 706; 12 U.S.C., 264 (c) (7)), 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, 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 217.3—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 part, 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

<sup>7</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.

by the Board will be set forth in supplements to this part, 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 part, 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 part.

**(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 (1) the applicable maximum rate prescribed pursuant to the provisions of paragraph (a) of this section, or (2) 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.

**(d) Grace periods in computing interest on savings deposits.**—A member bank may pay interest on a savings deposit received during the first 10 calendar days of any calendar month at the applicable maximum rate prescribed pursuant to paragraph (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 part, whichever shall first occur; and a member bank may pay interest on a savings deposit withdrawn during its last 3 business days of any calendar month ending a regular quarterly or semiannual interest period at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated to the end of such calendar month.

**(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 paragraph (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 paragraph

(a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of paragraph (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 217.4—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 paragraph (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 paragraph (d) of this section.

(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 paragraph (d) of this section.

<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.



(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 per cent per annum in excess of the rate of interest on the time deposit.

#### SECTION 217.5—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 paragraph (a)(1), (2), or (3) 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 part 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 per cent per annum in excess of the rate of interest on the savings deposit.

(Section 217.6 Maximum rates of interest payable on time and savings deposits by member banks, is printed separately.)

## APPENDIX

### STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act (12 U.S.C., sec. 461), 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: \* \* \*

\* \* \* \* \*

(12 U.S.C., sec. 371a)

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.

(12 U.S.C., sec. 371b)

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 (12 U.S.C., sec. 371), 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.

## SUPPLEMENT TO REGULATION Q

### SECTION 217.6

#### Maximum Rates of Interest Payable on Time and Savings Deposits by Member Banks

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 1, 1957

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, 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:

(a) Maximum rate of 3 per cent.—No member bank shall pay interest accruing at a rate in excess of 3 per cent per annum, compounded quarterly, <sup>2</sup> regardless of the basis upon which such interest may be computed:

- (1) On any savings deposit,
- (2) 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,
- (3) On any Postal Savings deposit which constitutes a time deposit.

(b) Maximum rate of 2½ per cent.—No member bank shall pay interest accruing 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:

- (1) 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

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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.

payable upon written notice of less than six months and not less than 90 days.

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

(1) 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.

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<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.