

**FEDERAL RESERVE BANK  
OF DALLAS**

Dallas, Texas, June 28, 1966

**RESERVE REQUIREMENTS ON TIME DEPOSITS OTHER THAN SAVINGS  
DEPOSITS INCREASED FROM 4% TO 5% OF SUCH DEPOSITS IN  
EXCESS OF \$5 MILLION**

**To the Member Banks of the  
Eleventh Federal Reserve District:**

The attached statement was made public June 27, 1966, by the Board of Governors of the Federal Reserve System.

The Supplement to Regulation D has been revised to reflect the changes referred to in the above statement. Amendments to Regulations D and Q have also been prepared incorporating these changes. Copies of the Amendments and revised Supplement are attached. The Supplement should be substituted for the Supplement now filed with your copy of Regulation D. The Amendments also should be inserted with the related Regulations in the ring binder furnished you for this purpose.

Please acknowledge receipt of the revised Supplement and the Amendments on the enclosed postal card.

The Report of Deposits and Related Data form will be revised as promptly as possible to give effect to the revised Supplement to Regulation D and other changes of which you were advised in my letters of January 25 and June 9, 1966.

Yours very truly,

Watrous H. Irons  
President

Enclosures (5)



# FEDERAL RESERVE

press release

For immediate release.

June 27, 1966.

The Board of Governors of the Federal Reserve System announced today two actions designed to moderate further growth of bank credit and deposits: an increase in reserve requirements against certificates and other forms of time deposits, and an extension of regulations regarding reserve requirements and interest on deposits to shorter-term promissory notes of banks.

Reserve requirements were increased from 4 per cent to 5 per cent against the amount of time deposits (other than savings deposits) in excess of \$5 million at each member bank. The increase will become effective with the reserve computation periods beginning July 14, 1966, for reserve city banks, and July 21, 1966, for all other member banks.

It is estimated that this action will increase required reserves by more than \$400 million--approximately \$350 million at reserve city banks and \$70 million at other member banks. All told, about 950 larger member banks throughout the country--primarily those issuing savings certificates and other certificates of deposit (CD's) in large volume--are expected to be affected by this increase in requirements. The action should exercise a tempering influence on bank issuance of time certificates of deposit. The measure will also serve to apply a moderate additional measure of restraint upon the expansion of banks' loanable funds and thus reinforce the operations of other instruments of monetary policy in containing inflationary pressures.

At the same time, the Board acted to bring shorter-term bank promissory notes and similar instruments under the regulations governing reserve requirements and payment of interest on deposits. This action would not apply to Federal funds transactions, interbank borrowings, transfers of assets with agreements to repurchase, or bank notes for capital purposes that have a maturity of more than two years and are subordinated to claims of depositors. The action will become effective September 1, 1966 and will apply to all promissory notes covered by the action that are issued on or after June 27, 1966, and are outstanding on or after the effective date. Promissory notes and other instruments of the type covered by the action have come into use only in the last few years and the volume outstanding at present is small. The purpose of the Board's action is to prevent future use of these instruments as a means of circumventing statutory and regulatory requirements applicable to bank deposits.

Attached are the texts of the amendments to the Supplement to the Board's Regulation D, Reserves of Member Banks, and to Regulation Q, Payment of Interest on Deposits, which implement this action.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D]

PART 204 - RESERVES OF MEMBER BANKS

Reserve percentages

1. Effective as to member banks in reserve cities at the opening of business on July 14, 1966, and as to all other member banks at the opening of business on July 21, 1966, § 204.5 [Supplement to Regulation D] is amended to read as follows:

§ 204.5 Supplement.

(a) Reserve percentages. Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

(1) If not in a reserve city--

(i) 4 per cent of its savings deposits, plus

(ii) 4 per cent of its other time deposits up to \$5 million and 5 per cent of such deposits in excess of \$5 million, plus

(iii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)--

(i) 4 per cent of its savings deposits, plus

(ii) 4 per cent of its other time deposits up to \$5 million and 5 per cent of such deposits in excess of \$5 million, plus

(iii) 16-1/2 per cent of its net demand deposits.

(b) Counting of currency and coin. The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

2a. This amendment is issued pursuant to the authority granted to the Board of Governors by section 19 of the Federal Reserve Act to change reserve requirements to prevent injurious credit expansion or contraction (12 U.S.C. 462b). The only change is to increase the reserves that must be maintained against time deposits (other than savings deposits) in excess of \$5 million from 4 per cent to 5 per cent.

b. There was no notice and public participation with respect to this amendment as such procedure would result in delay that would be contrary to the public interest and serve no useful purpose. (See § 262.1(e) of the Board's Rules of Procedure (12 CFR 262.1(e)).)

Dated at Washington, D. C., this 27th day of June, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

TITLE 12 - BANKS AND BANKING

CHAPTER II - FEDERAL RESERVE SYSTEM

SUBCHAPTER A - BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. D and Reg. Q]

PART 204 - RESERVES OF MEMBER BANKS

PART 217 - PAYMENT OF INTEREST ON DEPOSITS

Certain promissory notes

1. Effective September 1, 1966, § 204.1 and § 217.1 are amended as follows:

(a) Paragraphs (f), (g), (h), and (i) of § 204.1 are redesignated as paragraphs (g), (h), (i), and (j), respectively.

(b) A new paragraph (f) is inserted as follows:

§ 204.1 Definitions.

§ 217.1 Definitions.

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(f) Deposits as including certain promissory notes. For the purposes of this part, the term "deposits" shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

2a. This amendment is issued under the Board's authority to prevent evasions of the purposes of section 19 of the Federal Reserve Act (12 U.S.C. 461). It is designed to bring within the coverage of Regulations D and Q promissory notes and similar instruments of the type that banks have developed in recent years as a means of obtaining funds for use in the ordinary course of their banking business.

b. Notices of proposed rule making with respect to this amendment were published in the Federal Register of January 26, 1966 (31 F.R. 1010) and of April 2, 1966 (31 F.R. 5320). The amendment was adopted by the Board after consideration of all relevant material, including responses received from interested persons pursuant to those notices.

Dated at Washington, D. C., this 27th day of June, 1966.

By order of the Board of Governors.

(Signed) Merritt Sherman

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Merritt Sherman,  
Secretary.

## SUPPLEMENT TO REGULATION D

### Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to member banks in reserve cities at the opening of business on July 14, 1966, and as to all other member banks at the opening of business on July 21, 1966.

(a) **Reserve percentages.**—Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

- (1) If not in a reserve city —
  - (i) 4 percent of its savings deposits, plus
  - (ii) 4 percent of its other time deposits up to \$5 million and 5 percent of such deposits in excess of \$5 million, plus
  - (iii) 12 percent of its net demand deposits.
  
- (2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)—
  - (i) 4 percent of its savings deposits, plus
  - (ii) 4 percent of its other time deposits up to \$5 million and 5 percent of such deposits in excess of \$5 million, plus
  - (iii) 16½ percent of its net demand deposits.

(b) **Counting of currency and coin.**—The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.

# RESERVES OF MEMBER BANKS

## AMENDMENT TO REGULATION D

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 1, 1966, section 204.1 is amended as follows:

(A) Paragraphs (f), (g), (h), and (i) of section 204.1 are redesignated as paragraphs (g), (h), (i), and (j), respectively.

(B) A new paragraph (f) is inserted as follows:

### SECTION 204.1 — DEFINITIONS

(f) **Deposits as including certain promissory notes.** — For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

# PAYMENT OF INTEREST ON DEPOSITS

## AMENDMENT TO REGULATION Q

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective September 1, 1966, section 217.1 is amended by adding the following paragraph:

### SECTION 217.1 — DEFINITIONS

(f) **Deposits as including certain promissory notes.**— For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than two years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.