FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-306
November 14, 1974

RESTRUCTURING OF RESERVE REQUIREMENTS

To All Member Banks in the
Eleventh Federal Reserve District:

There is quoted below the text of a press release issued Wednesday, November 13, 1974 by the Board of Governors of the Federal Reserve System announcing amendments to Regulation D modifying reserve requirements for member banks. The amendments are effective on deposits outstanding in the week beginning November 28, 1974 and affect reserves held by member banks in the week beginning December 12, 1974.

"The Board of Governors of the Federal Reserve System today approved a restructuring of reserve requirements that will help meet the seasonal need for bank reserves over the coming weeks.

The Board's action is also designed to improve the liquidity of the banking system by encouraging member banks to seek longer-term time deposits. This will be done by lowering reserve requirements on longer-term time deposits and increasing reserve requirements on shorter-term time deposits.

The net effect of the over-all restructuring -- which includes some reduction in reserve requirements on demand deposits over $400 million -- will be to release about $750 million in reserves to the banking system.

Normally, the Federal Reserve provides a substantial amount of reserves to accommodate the seasonal expansion in the demand for money and credit that occurs over this period, particularly during the Christmas shopping season. This restructuring will provide part of the needed reserves directly to member banks rather than through open market operations.

Actions taken by the Board will:

1. Reduce from 5 per cent to 3 per cent the reserve requirement on all time deposits with an initial maturity of four months or longer.

2. Increase from 5 per cent to 6 per cent the reserve requirement on all time deposits with an initial maturity of less than four months.

(The first $5 million of such deposits at each member bank will be subject to a 3 per cent reserve requirement).

3. Reduce from 18 per cent to 17-1/2 per cent the reserve requirement on net demand deposits over $400 million.

4. Remove the remaining marginal reserve requirement of 3 per cent on large certificates of deposit issued to mature in less than four months.

All changes will apply to deposits outstanding in the week beginning November 28 and will release reserves in the week beginning December 12. The net reduction in reserves will be distributed among various size banks as shown in the following table:

Size of Bank (Total deposits in millions of dollars)	Net reduction in required reserves
Under 50	$240 million
50 - 100	$135 million
100 - 500	$140 million
500 and over	$245 million

Reserve Requirements on Time Deposits

Reserve requirements on time deposits will be restructured to provide for a higher reserve requirement on shorter-term time deposits and a lower reserve requirement on longer-term time deposits. The following table depicts the new reserve structure:

Time and Savings Deposits

Type of Deposit	Ratio
Savings deposits	3
Other Time Deposits	
30-119 days	
$5 million and under	3
Over $5 million	6
120 days and over	3

This change introduces a maturity breakdown for reserve requirements on "other time deposits" regardless of denomination. Under the system now in effect, member banks are required to maintain a 3 per cent reserve requirement on "other time deposits" up to $5 million and a 5 per cent reserve requirement on "other time deposits" of more than $5 million.

Reserve Requirements on Demand Deposits

Reserve requirements will be reduced from 18 per cent to 17-1/2 per cent on net demand deposits over $400 million. This will offset the increase in required reserves that large banks will experience as a result of changes in the structure of reserve requirements on time deposits.

The reduction will also narrow somewhat the gap now existing in reserve requirements for large banks as shown in the following table:

Deposits (in millions of dollars)	Net Demand Deposits Old	Net Demand Deposits New
0 - 2	8	8
2 - 10	10-1/2	10-1/2
10 - 100	12-1/2	12-1/2
100 - 400	13-1/2	13-1/2
Over 400	18	17-1/2

Marginal Reserve Requirement

Removal of the remaining marginal reserve requirement of 3 per cent affects large certificates of deposit ($100,000 and over) maturing in less than four months. The Board in September removed the marginal reserve requirement on large CD's with an initial maturity of four months or longer.

This action was taken in recognition of the fact that the volume of large CD's has declined in recent weeks and in view of the outdated base period used by banks to compute their marginal reserves.

The elimination of the marginal reserve requirement on large CD's means that non-member banks that maintained this reserve requirement voluntarily are no longer asked to do so as of the effective date of today's action.

A marginal reserve requirement (the regular 5 per cent plus a supplemental 3 per cent) was first announced by the Board on May 16, 1973. An additional 3 per cent marginal reserve was announced on September 7, 1973, but this was removed by the Board last December. On September 4, 1974, the Board announced removal of the 3 per cent marginal reserve requirement on large CD's with an initial maturity of four months or longer. Today's action will result in removal of the remaining marginal reserve requirement.

The marginal reserve requirement applied to increases (beyond the amount outstanding in the week ended May 16, 1973) is the total of (a) time deposits in denominations of $100,000 and over and (b) bank-related commercial paper and finance bills with a maturity of 30 days or longer. In no case did the supplemental reserve apply to banks whose deposits of this type totaled less than $10 million.

Reserve requirements on borrowings of Euro-dollars by American banks remain at 8 per cent. Agencies and branches of foreign banks that are maintaining this reserve requirement voluntarily are not affected by today's action."

A revised Supplement to Regulation D (Reserves of Member Banks) is enclosed and should be inserted in your binder of Bulletins and Regulations issued by this Bank.

Yours very truly,

T. W. Plant

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

SUPPLEMENT TO REGULATION D

As amended effective November 28, 1974

SECTION 204.5—RESERVE REQUIREMENTS

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

(1) **If not in a reserve city—**

(i) 3 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that 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; and

(ii) 3 per cent of its time deposits outstanding on November 28, 1974, which have an initial maturity of 120 days or more, or are issued on or after November 28, 1974 with an initial maturity of 120 days or more, 3 per cent of its time deposits up to $5 million, outstanding on November 28, 1974, which have an initial maturity of less than 120 days, or are issued on or after November 28, 1974 with an initial maturity of less than 120 days, plus 6 per cent of such deposits in excess of $5 million; and

(iii) (*a*) 8 per cent of its net demand deposits if its aggregate net demand deposits are $2 million or less, (*b*) $160,000 plus 10½ per cent of its net demand deposits in excess of $2 million if its aggregate net demand deposits are in excess of $2 million but less than $10 million, (*c*) $1 million plus 12½ per cent of its net demand deposits in excess of $10 million if its aggregate net demand deposits are in excess of $10 million but less than $100 million, or (*d*) $12,250,000 plus 13½ per cent of its net demand deposits in excess of $100 million.

(2) **If in a reserve city** (except as to any bank located in such a city that 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) 3 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that 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; and

(ii) 3 per cent of its time deposits outstanding on November 28, 1974, which have an initial maturity of 120 days or more, or are issued on or after November 28, 1974 with an initial maturity of 120 days or more, 3 per cent of its time deposits up to $5 million, outstanding on November 28, 1974, which have an initial maturity of less than 120 days, or are issued on or after November 28, 1974 with an initial maturity of less than 120 days, plus 6 per cent of such deposits in excess of $5 million; and

(iii) $52,750,000 plus 17½ per cent of its net demand deposits in excess of $400 million.

(b) **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.

(c) **Reserve percentages against certain deposits by foreign banking offices.** Deposits represented by promissory notes, acknowledgments of advance, due bills, or similar obligations described in § 204.1(f) to foreign offices of other banks,[8] or to institutions the time deposits of which are exempt from the rate limitations of Regulation Q pursuant to § 217.3(g) thereof, shall not be subject to paragraph (a) of this section or to § 204.3 (a)(1) and (2); but during each week of the four-week period beginning June 21, 1973, and during each successive four-week ("maintenance") period, a member bank shall maintain with the Reserve Bank of its district a daily average balance equal to 8 per cent of the daily average amount of such deposits during the four-week computation period ending on the Wednesday fifteen days before the beginning of the maintenance period. An excess or deficiency in reserves in any week of a maintenance period under this paragraph shall be subject to § 204.3(a)(3), as if computed under § 204.3(a)(2), and deficiencies under this paragraph shall be subject to § 204.3 (b):[9]

Provided, That any bank that, under the terms of § 204.5(c) of Regulation D as in effect prior to June 21, 1973,[10] was deducting for the computation period ending on May 9, 1973, an earlier period's corresponding daily average total of such deposits (hereinafter called "reserve-free base") in calculating its reserve requirements shall continue to be entitled to do so in accordance with the terms of such former section, but such reserve-free base shall not exceed progressively lower ceilings established hereunder by reducing the amount of its reserve-free base for the computation period ending on May 9, 1973, in ten increments, each equal to 10 per cent of its base in such computation period ending on May 9, 1973, applied consecutively in each succeeding computation period beginning with the period ending on August 1, 1973, until such reserve-free base is exhausted.

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[8] Any banking office located outside the States of the United States and the District of Columbia of a bank organized under domestic or foreign law.

[9] The term "computation period" in § 204.3(a)(3) and (b) shall, for this purpose, be deemed to refer to each week of a maintenance period under this paragraph.

[10] 35 Federal Register 18658.