FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-57
May 15, 1978

TREASURY TAX AND LOAN INVESTMENT PROGRAM

TO THE CHIEF EXECUTIVE OFFICER, EACH BANK
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

Enclosed are the final rules, depositary's manual, maximum balance form, and option form covering the new Treasury Tax and Loan Investment Program which will be implemented July 6, 1978. Your staff involved in this program should review the enclosed material closely, and all questions should be directed to the officer at the Federal Reserve Bank servicing the area in which you are located:

Dallas Office	Jack A. Clymer	Ext. 6340
El Paso Branch	Joel L. Koonce	(915) 544-4730
Houston Branch	Sammie C. Clay	(713) 659-4433
San Antonio Branch	Thomas C. Cole	(512) 224-2141

In order to allow sufficient processing time, the enclosed Election of Option Form should be completed and returned to the Fiscal Agency Department at the Dallas Office by June 1. If the form is not received by the deadline, your bank will be placed in the Remittance Option. All late forms indicating the Note Option will be effected the next reporting cycle beginning August 3.

Should your bank elect the Note Option under the new program, the enclosed form FA-1038, "Maximum Balance Limitation," should be completed and returned with the Election of Option Form. Banks which select the Note Option but fail to return form FA-1038 will have their deposit ceilings set according to their collateral pledged. Deposits in excess of collateral shall be withdrawn without prior notice.

Numerous meetings have been conducted in the Eleventh District concerning the Investment Program, and many questions have been raised by bankers concerning different applications. In order to give all banks the benefit of these questions and answers, a circular letter will be distributed in June outlining the subjects concerned.

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

It should be noted that the July 6 implementation date is effective only if Congress has appropriated funds to cover the payment of fees for services rendered as provided in the regulations. If Congress does not appropriate funds for fee payments by June 16, 1978, we will notify you of the postponement.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures

OFFICE
OF THE
COMMISSIONER

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
WASHINGTON, D.C. 20226

TREASURY FISCAL REQUIREMENTS MANUAL FOR GUIDANCE OF FEDERAL RESERVE BANKS AND DEPOSITARIES

BULLETIN NO. 78-03 **RETENTION:** Until Further Notice

TO FEDERAL RESERVE BANKS, DEPOSITARIES AND OTHERS CONCERNED:

1. PURPOSE

These Procedural Instructions for Treasury Tax and Loan Depositaries supplement the provisions of 31 CFR 203, Treasury Tax and Loan Depositaries, and 31 CFR 214, Depositaries for Federal Taxes, and should be read in conjunction with those regulations.

2. INTEREST ON NOTE BALANCES

This supplements the provisions of 31 CFR 203.9(e) and 203.13 to provide guidelines concerning the computation of interest on note balances as follows:

A. The amount of interest due will be determined by applying the weekly interest rate factor to the average amount of the note balance for each week of the reporting cycle. These calculations will be completed by the Federal Reserve bank on the 20th of each month (or the prior business day if the 20th is a non-business day) for transactions of the just-completed reporting cycle.

B. The average amount of the note balance for each week will be determined by dividing the total of the daily closing note balances by seven (7). The weekly period begins on Thursday and ends on the following Wednesday. The balance at the close of business on Friday will be carried forward for Saturday and Sunday. For other Federal Reserve bank non-business days, the previous business day's balance will be carried forward as the balance for the non-business day.

C. The interest will be computed using the following formula: the average Federal funds rate for the corresponding weekly period quoted as a percentage to two decimal places, less 25 basis points (1/4 of 1%), x (times) the applicable number of days for which interest is being computed, ÷ (divided by) 360 days. The final factor will be rounded to five decimal places. The fifth number to the right of the decimal point will be rounded to the next higher number if the sixth number to the right of the decimal point is 6, 7,

8, or 9, or to the next lower number if the sixth number to the right of the decimal point is 1, 2, 3, 4, or 5.

D. When the average note balance for a week is $25,000 or less, the first $5,000 will be exempt from the interest computation.

3. LATE FEE

This supplements the provisions of 31 CFR 203.10(b)(1)(ii) to provide guidelines concerning the computation of the late fee as follows:

A. The amount of the late fee will be determined by multiplying the amount of each late advice of credit by the related daily interest rate factor for each day the advice of credit is late. The daily interest rate factor shall be determined in accordance with the formula stated at Section 2(C) of these procedural instructions.

B. Calculation of the amount of late fees due will be performed by the Federal Reserve bank on the 20th of each month (or the prior business day if the 20th is a non-business day) for transactions which occurred during the just-completed reporting cycle.

4. ANALYSIS CREDIT

This supplements the provisions of 31 CFR 203.10(b)(2)(ii) to provide guidelines concerning the computation of the analysis credit as follows:

A. The Federal Reserve bank will determine for each week of a reporting cycle the average daily volume of the amount of funds in transit between the Remittance Option - Class 2 depositary and the Federal Reserve bank which is in excess of one business day.

B. The Federal Reserve bank will multiply that average balance by the interest rate factor for the corresponding week. The weekly interest rate factor will be determined in accordance with the formula stated at Section 2(C) of these procedural instructions.

C. The analysis credit for each week of the reporting cycle will be totaled for the reporting cycle.

D. Analysis credit calculations will be performed by the Federal Reserve bank on the 20th of each month (or the prior business day if the 20th is a non-business day) for the just-completed reporting cycle.

5. COMPENSATION TO THE DEPOSITARY

This supplements the provisions of 31 CFR 203.14 and 214.6(b) to provide guidelines concerning the determination of the amount of compensation due each depositary and the method of payment.

On the 20th of each month (or the prior business day if the 20th is a non-business day) the Federal Reserve bank will compute the amount of compensation due to the depositary and include that amount in a monthly statement to be issued that day. Compensation due Note Option and Remittance Option - Class 1 depositaries will be computed by multiplying the number of Federal tax deposit forms processed by the depositary and received and fully processed by the Internal Revenue service center during a calendar month by the fee of $.50 (fifty cents). The amount of compensation due Remittance Option - Class 2 depositaries will be computed by multiplying the number of Federal tax deposit forms processed by the depositary and received and fully processed by the Internal Revenue service center during a calendar month by $.50 (fifty cents) and reducing the result by the analysis credit described in Section 4 of these procedural instructions. If the total amount of the analysis credit is greater than the compensation due for services rendered, no compensation will be paid and no charge will be made to the depositary.

On the 25th of each month (or the next business day if the 25th is a non-business day) the Federal Reserve bank will make payment through a depositary's reserve account or the reserve account of a member-bank correspondent.

Compensation to qualified agents for the issuance of U.S. Savings Bonds, Series E and the redemption of U.S. Savings Bonds and Notes will be handled separately under procedures established by the Bureau of the Public Debt, Department of the Treasury.

The monthly statement will include the following information concerning the compensation to be paid: the number of Federal tax deposit forms upon which the compensation is based; the fee factor; and, the total compensation to be paid. The monthly statement prepared for Remittance Option - Class 2 depositaries will specify the total of the analysis credit assessed and the amount of any compensation due to the depositary by Treasury after applying the analysis credit.

6. PAYMENTS TO THE TREASURY

This supplements the provisions of 31 CFR 203.9(e) and 203.10(b)(1)(ii).

Payments by a depositary to the Treasury will be collected through the Federal Reserve bank.

On the 20th of each month (or the prior business day if the 20th is a non-business day) the Federal Reserve bank will compute payments due the Treasury and include information supporting the payments due in the monthly statement to be issued that day. Payments due by a Note Option depositary will be computed as specified in Section 2 of these procedural instructions; a Remittance Option - Class 1 depositary, Section 3.

On the 25th of each month (or the next business day if the 25th is a non-business day) the Federal Reserve bank will effect the payments due the Treasury. The Federal Reserve bank will effect the payments through a depositary's reserve account or the reserve account of a member-bank correspondent.

7. DIRECT INVESTMENTS

(Reserved for future use.)

8. CLASSIFICATION OF NOTE OPTION DEPOSITARIES

This supplements the provisions of 31 CFR 203 to provide guidelines concerning the classification of depositaries.

Note Option depositaries will be placed into Classes A, B, or C, depending upon the total credits to the Treasury tax and loan account during the preceding calendar year. The classification criteria applicable at the present time are based upon the total credits to a depositary's tax and loan account during calendar year 1977 and are as follows:

1. Class C - Depositaries which had $80,000,000 or more in credits and whose total deposit liabilities (both demand and time) exceeded $60,000,000 at calendar-year end.

2. Class B - Depositaries which had $7,500,000 or more but less than $80,000,000 in credits, and depositaries which had $80,000,000 or more in credits but whose total liabilities (both demand and time) were $60,000,000 or less at calendar-year end.

3. Class A - Depositaries which had less than $7,500,000 in credits.

A newly-designated depositary will be placed into Class A if it selects the Note Option.

9. BASIS FOR DETERMINING REMITTANCE OPTION CATEGORIES

This supplements the provisions of 31 CFR 203.10(b) to provide additional guidelines concerning the subdivision of Remittance Option depositaries.

As of the effective date of the tax and loan investment program, Remittance Option depositaries will be placed into Class 1 or Class 2 depending upon the total credits to the Treasury tax and loan account during the preceding calendar year. The classification criteria for the Remittance Option Classes, to be applicable as of the effective date, are based upon the total credits to a depositary's tax and loan account during calendar year 1977 and are as follows:

1. Class 1 - Depositaries which had $1,500,000 or more in credits.

2. Class 2 - Depositaries which had less than $1,500,000 in credits.

A newly-designated depositary will be placed into Class 2 if it selects the Remittance Option.

10. REMITTANCE OPTION - CLASS 2 DEPOSIT FLOW

This supplements the provisions of 31 CFR 203.10(b)(2)(iii).

If at any time during the year a depositary's rate of flow of deposits to its tax and loan account during the preceding three reporting cycles exceeds, on an annualized basis, $3 million, the depositary will automatically be transferred out of Remittance Option - Class 2.

The Federal Reserve bank will issue on or about the 20th of the month a notice to the depositary advising of the need for the change in status and requesting the depositary to indicate whether it wishes to elect the Note Option in lieu of transferring to the Remittance Option - Class 1. If the Federal Reserve bank does not receive the depositary's response by the 20th of the following month (or the preceding business day if the 20th is a non-business day), the depositary will automatically be considered subject to the provisions applicable to the Remittance Option - Class 1, as of the first day of the next reporting cycle.

11. CHANGES OF OPTION

This supplements the provisions of 31 CFR 203.12 to provide guidelines concerning changes in options by depositaries.

A depositary may change from one option to another after providing due notice to the Federal Reserve bank of the district. A change in option will become effective as of the first day of the next reporting cycle following receipt of such notice provided that notice is received by the Federal Reserve bank of the district not later than the 20th of month. The depositary is subject to the provisions of the existing option until it receives formal notification from the Federal Reserve bank of the change in options. All changes will be effective as of the beginning of a reporting cycle. This provision is intended to afford depositaries the opportunity to change options on an occasional basis. Frequent changes of option are not acceptable. The specific guidelines are as follows:

A. When a Note Option depositary wishes to convert to a Remittance Option depositary, the following procedures will apply:

1. The depositary will submit to the Federal Reserve bank of its district written notification requesting the change in option by the 20th of any month for the change to be effective the next reporting cycle.

2. The Federal Reserve bank will provide the depositary notice of the effective date of the change in option.

3. On the effective date of the change to the Remittance Option, the balance in the note as recorded on the books of the Federal Reserve bank will be withdrawn (including all funds which have been called for payment on a date later than the effective date of the change in option but not yet paid).

4. A depositary will be placed in Class 1 or Class 2 on the basis of the total credits to its Treasury tax and loan account during the preceding calendar year as specified in Section 9 of these procedural instructions.

5. All advices of credit received by the Federal Reserve bank on and after the effective date will be processed in accordance with the provisions of the Remittance Option.

B. When a Remittance Option depositary wishes to convert to a Note Option depositary, the following procedures will apply:

1. The depositary will submit to the Federal Reserve bank of its district written notification requesting the change in option by the 20th of any month for the change to be effective the next reporting cycle.

2. The Federal Reserve bank will provide the depositary notice of the effective date of the change in option.

3. On and after the effective date of the change to the Note Option, all advices of credit received by the Federal Reserve bank and dated on or after the effective date will be processed in accordance with the provisions of the Note Option.

4. Each advice of credit dated prior to the effective date, but received after the effective date, will be subject to the Remittance Option requirements for the period of time from the date of the advice of credit until the effective date of the change in option. Therefore, if an assessment of late charges is in order, the charges will be assessed for the period of time prior to the effective date of the change in option. The amount of such advices will be added to the note account as of the effective date of the change in options.

5. The depositary will be placed in the appropriate Class, A, B, or C, based upon the total credits to its Treasury tax and loan account during the preceding calendar year and prevailing classification criteria specified in Section 8 of these procedural instructions.

12. DATING AND FORWARDING

This supplements the provisions of 31 CFR 214.6 to provide guidelines for dating and forwarding Federal tax deposits received by depositaries after normal banking hours and on Saturday.

If a depositary on a week day has established a cutoff time after which accounting for items or deposits of money received are dated as of the depositary's next business day, the following procedures will apply for the dating and forwarding of tax deposits:

A. If the cutoff time is no earlier than 2:00 p.m. (local time) the depositary may date the tax deposit as of the following business day of the depositary and include the deposit in advices of credit remitted to the Federal Reserve bank on that day.

B. If a depositary is able to include a deposit received after its normal cutoff hour in its current calendar day's remittance to the Federal Reserve bank, it may date such tax deposit with the current date and include it in its current day's advices of credit.

If a depositary is open on Saturday but uses the following business day as an accounting date, the same guidelines apply; i.e., the tax deposits may be dated with Saturday's date if the depositary is able to send an advice of credit forward that day. Otherwise, the deposit may be dated as of the depositary's following business day and included in that business day's remittance.

In every instance, the date placed on the Treasury Form 2284, Advice of Credit, and the date placed on each Federal tax deposit form will be the same.

13. INQUIRIES

Inquiries concerning operating procedures contained in these procedural instructions should be directed to the Federal Reserve bank or branch in whose territory the depositary is located.

Inquiries concerning operating procedures that require clarification from Treasury should be directed to:

Special Financing Staff
Bureau of Government Financial Operations
Department of the Treasury
Treasury Annex No. 1
Washington, D.C. 20226
(Telephone: 202-566-5125)

14. APPENDIX

Appendix No. 1 to these procedural instructions provides the specific dates for the reporting cycles through December 1979.

D. A. Pagliai
Commissioner

Appendix No. 1

REPORTING CYCLES - TT&L INVESTMENT PROGRAM

JULY - DECEMBER 1978
JANUARY - DECEMBER 1979

Year	Reporting Cycle Number and Month	Dates of First Week	Dates of Second Week	Dates of Third Week	Dates of Fourth Week	Dates of Fifth Week
1978	1 - JULY	7/6-12	7/13-19	7/20-26	7/27-8/2	
	2 - AUGUST	8/3-9	8/10-16	8/17-23	8/24-30	8/31-9/6
	3 - SEPT.	9/7-13	9/14-20	9/21-27	9/28-10/4	
	4 - OCT.	10/5-11	10/12-18	10/19-25	10/26-11/1	
	5 - NOV.	11/2-8	11/9-15	11/16-22	11/23-29	11/30-12/6
	6 - DEC.	12/7-13	12/14-20	12/21-27	12/28-1/3/79	
1979						
	1 - JAN.	1/4-10	1/11-17	1/18-24	1/25-31	
	2 - FEB.	2/1-7	2/8-14	2/15-21	2/22-28	
	3 - MARCH	3/1-7	3/8-14	3/15-21	3/22-28	3/29-4/4
	4 - APRIL	4/5-11	4/12-18	4/19-25	4/26-5/2	
	5 - MAY	5/3-9	5/10-16	5/17-23	5/24-30	5/31-6/6
	6 - JUNE	6/7-13	6/14-20	6/21-27	6/28-7/4	
	7 - JULY	7/5-11	7/12-18	7/19-25	7/26-8/1	
	8 - AUGUST	8/2-8	8/9-15	8/16-22	8/23-29	8/30-9/5
	9 - SEP.	9/6-12	9/13-19	9/20-26	9/27-10/3	
	10 - OCT.	10/4-10	10/11-17	10/18-24	10/25-31	
	11 - NOV.	11/1-7	11/8-14	11/15-21	11/22-28	11/29-12/5
	12 - DEC.	12/6-12	12/13-19	12/20-26	12/27-1/2/80	

INSTRUCTIONS FOR THE ELECTION OF OPTION FORM

1. Tax and loan depositaries wishing to continue to participate in the Treasury tax and loan account system should check the appropriate box for the option selected, i.e., the Note Option OR the Remittance Option. Financial institutions wishing to withdraw from the Treasury tax and loan account system should check the appropriate box, i.e., Termination. Unless it indicates that it wishes to terminate its authority to maintain a Treasury tax and loan account, a depositary which submits an executed Election of Option Form to the Federal Reserve Bank thereby affirms both its intent to be bound by its depositary contracts with the Treasury and its understanding that the terms of those contracts are the provisions of 31 CFR Parts 203 and 214, and any instructions or supplements issued thereunder, together with any amendments to such regulations, instructions or supplements hereafter made.

2. N.B.: A designated depositary which does not complete this Form and which continues to credit deposits to its Treasury tax and loan acccount will be deemed to (a) wish to continue its participation in the Treasury tax and loan account system, and (b) have chosen the Remittance Option. (See 31 CFR 203.11(b)).

3. An original and two copies of the Election of Option Form (the face of the Form) should be executed by a depositary. The depositary should retain for its files one copy, and send to the Federal Reserve Bank of the District the original and other copy. After receipt and processing of an executed Form, choosing either the Note Option or the Remittance Option, the Federal Reserve Bank will complete and return to the depositary the notice letter on the obverse of the original of the Form thereby advising the depositary of the effective date of the Option elected. The Federal Reserve Bank will retain the other copy. After receipt and processing of an executed Form choosing Termination, the Federal Reserve Bank will by a separate notice letter notify the depositary of the effective date of the Termination. The Federal Reserve Bank will retain a copy of the notice letter

4. Depositaries electing the Remittance Option will be subdivided into Class 1 and Class 2 depending upon the volume of deposits credited to their Treasury tax and loan accounts during the previous calendar year. Depositaries which during the prior calendar year processed credits of $1.5 million or more to their tax and loan accounts will be placed in Remittance Option - Class 1. Tax and loan depositaries which during the prior calendar year processed credits to their tax and loan accounts of less than $1.5 million will be placed in Remittance Option - Class 2. (See 31 CFR 203.10).

5. A depositary may change from one option to another after due notice to the Federal Reserve Bank of the District by means of executing a new Election of Option Form. The depositary will be subject to the provisions of the existing option until it receives formal notification from that Federal Reserve Bank that the change has been effected. (See 31 CFR 203.12).

Cut along this line

ELECTION OF OPTION

TO: The Federal Reserve Bank of _____,
acting as Fiscal Agent of the United States.

The undersigned financial institution, a Treasury tax and loan depositary designated in accordance with 31 CFR Part 203, hereby elects, pursuant to 31 CFR Part 203 and as of the effective date of the Treasury tax and loan account investment program, to administer a Treasury tax and loan account under the option checked below, or hereby elects to have its designation revoked. In addition, by the signature affixed below, the undersigned financial institution expressly agrees to function its Treasury tax and loan account in accord with the provisions of 31 CFR Parts 203 and 214, the provisions of any instructions or supplements issued thereunder, and with any amendments hereafter made to such regulations, instructions or supplements.

☐ Note Option (under which funds debited to a depositary's Treasury tax and loan account are added by the Treasury to its investment in obligations of the depositary, as evidenced by open-ended interest-bearing notes; (See 31 CFR 203.2(h) and 203.9).

OR

☐ Remittance Option (under which funds equivalent to the amount of deposits credited by a Treasury tax and loan depositary to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank of its district immediately upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits; (See 31 CFR 203.2(j) and 203.10).

OR

☐ Termination (See 31 CFR 203.16(b)).

IN WITNESS WHEREOF The undersigned has caused the signature of its officer below-named and its corporate seal, duly attested, to be affixed hereto this _____day of _____, 19____, intending to be legally bound hereby.

_____
(Name of Financial Institution)

By* _____
(Signature)

SEAL

_____
(Typed Name)

_____
(Title)

Attestation: I hereby attest that _____, the
(Typed Name)
_____of the said_____, has
(Title) (Name of Financial Institution)
full authority to execute this form and fully to bind the said
_____.
(Name of Financial Institution)

_____
(Name of Financial Institution)

DATE:_____

_____
(Signature)

_____
(Typed Name)

_____
(Title)

*The officer signing here shall not be the officer signing the Attestation.

LETTER FROM THE FEDERAL RESERVE BANK OF THE DISTRICT
NOTIFYING A DEPOSITARY OF THE EFFECTIVE DATE OF THE OPTION SELECTED

Date:_____

Dear

We have received your "Election of Option" form dated _____. You are hereby notified that effective as of the opening of business on _____, 1978, your institution will be considered to be administering its Treasury tax and loan account, pursuant to its depositary contracts under 31 CFR Parts 203 and 214, and instructions and supplements issued thereunder, and in accordance with the _____Option Class_____ 1/(31 CFR part 203._____ 2/).

Federal Reserve Bank of_____,
Acting as Fiscal Agent of the
United States

By_____
(Signature)

_____
(Typed Name)

_____
(Title)

TO:

1/ Insert either "Note" or "Remittance," as appropriate. If "Remittance" is appropriate, also insert "Class 1" or "Class 2."

2/ Insert either 9 for Note Option, or 10 for Remittance Option.

ELECTION OF OPTION

TO: The Federal Reserve Bank of _____,
acting as Fiscal Agent of the United States.

The undersigned financial institution, a Treasury tax and loan depositary designated in accordance with 31 CFR Part 203, hereby elects, pursuant to 31 CFR Part 203 and as of the effective date of the Treasury tax and loan account investment program, to administer a Treasury tax and loan account under the option checked below, or hereby elects to have its designation revoked. In addition, by the signature affixed below, the undersigned financial institution expressly agrees to function its Treasury tax and loan account in accord with the provisions of 31 CFR Parts 203 and 214, the provisions of any instructions or supplements issued thereunder, and with any amendments hereafter made to such regulations, instructions or supplements.

☐ Note Option (under which funds debited to a depositary's Treasury tax and loan account are added by the Treasury to its investment in obligations of the depositary, as evidenced by open-ended interest-bearing notes; (See 31 CFR 203.2(h) and 203.9).

OR

☐ Remittance Option (under which funds equivalent to the amount of deposits credited by a Treasury tax and loan depositary to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank of its district immediately upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits; (See 31 CFR 203.2(j) and 203.10).

OR

☐ Termination (See 31 CFR 203.16(b)).

IN WITNESS WHEREOF The undersigned has caused the signature of its officer below-named and its corporate seal, duly attested, to be affixed hereto this _____day of _____, 19____, intending to be legally bound hereby.

_____
(Name of Financial Institution)

By* _____
(Signature)

SEAL

_____
(Typed Name)

_____
(Title)

Attestation: I hereby attest that _____, the
(Typed Name)
_____of the said_____, has
(Title) (Name of Financial Institution)
full authority to execute this form and fully to bind the said
_____.
(Name of Financial Institution)

_____
(Name of Financial Institution)

DATE:_____

_____
(Signature)

_____
(Typed Name)

_____
(Title)

*The officer signing here shall not be the officer signing the Attestation.

Cut along this line

LETTER FROM THE FEDERAL RESERVE BANK OF THE DISTRICT
NOTIFYING A DEPOSITARY OF THE EFFECTIVE DATE OF THE OPTION SELECTED

Date:_____

Dear

We have received your "Election of Option" form dated _____. You are hereby notified that effective as of the opening of business on _____, 1978, your institution will be considered to be administering its Treasury tax and loan account, pursuant to its depositary contracts under 31 CFR Parts 203 and 214, and instructions and supplements issued thereunder, and in accordance with the _____Option Class_____ 1/(31 CFR part 203._____ 2/).

Federal Reserve Bank of_____,
Acting as Fiscal Agent of the
United States

By_____
(Signature)

_____
(Typed Name)

_____
(Title)

TO:

1/ Insert either "Note" or "Remittance," as appropriate. If "Remittance" is appropriate, also insert "Class 1" or "Class 2."

2/ Insert either 9 for Note Option, or 10 for Remittance Option.

Cut along this line

ELECTION OF OPTION

TO: The Federal Reserve Bank of _____,
acting as Fiscal Agent of the United States.

The undersigned financial institution, a Treasury tax and loan depositary designated in accordance with 31 CFR Part 203, hereby elects, pursuant to 31 CFR Part 203 and as of the effective date of the Treasury tax and loan account investment program, to administer a Treasury tax and loan account under the option checked below, or hereby elects to have its designation revoked. In addition, by the signature affixed below, the undersigned financial institution expressly agrees to function its Treasury tax and loan account in accord with the provisions of 31 CFR Parts 203 and 214, the provisions of any instructions or supplements issued thereunder, and with any amendments hereafter made to such regulations, instructions or supplements.

☐ Note Option (under which funds debited to a depositary's Treasury tax and loan account are added by the Treasury to its investment in obligations of the depositary, as evidenced by open-ended interest-bearing notes; (See 31 CFR 203.2(h) and 203.9).

OR

☐ Remittance Option (under which funds equivalent to the amount of deposits credited by a Treasury tax and loan depositary to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank of its district immediately upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits; (See 31 CFR 203.2(j) and 203.10).

OR

☐ Termination (See 31 CFR 203.16(b)).

IN WITNESS WHEREOF The undersigned has caused the signature of its officer below-named and its corporate seal, duly attested, to be affixed hereto this _____day of _____, 19___, intending to be legally bound hereby.

_____
(Name of Financial Institution)

By*_____
(Signature)

SEAL

_____
(Typed Name)

_____
(Title)

Attestation: I hereby attest that _____, the
(Typed Name)
_____of the said_____, has
(Title) (Name of Financial Institution)
full authority to execute this form and fully to bind the said

_____*
(Name of Financial Institution)

_____
(Name of Financial Institution)

DATE:_____

_____
(Signature)

_____
(Typed Name)

_____
(Title)

*The officer signing here shall not be the officer signing the Attestation.

LETTER FROM THE FEDERAL RESERVE BANK OF THE DISTRICT
NOTIFYING A DEPOSITARY OF THE EFFECTIVE DATE OF THE OPTION SELECTED

Date:_____

Dear

We have received your "Election of Option" form dated _____. You are hereby notified that effective as of the opening of business on _____, 1978, your institution will be considered to be administering its Treasury tax and loan account, pursuant to its depositary contracts under 31 CFR Parts 203 and 214, and instructions and supplements issued thereunder, and in accordance with the _____Option Class_____ 1/(31 CFR part 203._____ 2/).

Federal Reserve Bank of_____,
Acting as Fiscal Agent of the
United States

By_____
(Signature)

_____
(Typed Name)

_____
(Title)

TO:

1/ Insert either "Note" or "Remittance," as appropriate. If "Remittance" is appropriate, also insert "Class 1" or "Class 2."

2/ Insert either 9 for Note Option, or 10 for Remittance Option.

U.S. GOVERNMENT PRINTING OFFICE : 1978 O - 264-258

OFFICE OF
FISCAL ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
FISCAL SERVICE
WASHINGTON, D.C. 20220

April 27, 1978

MEMORANDUM TO TREASURY TAX AND LOAN DEPOSITARIES

Treasury Tax and Loan Investment Program

Enclosed are the final rules implementing the investment authority provisions of Public Law 95-147 of October, 1977. These rules were issued as proposed rules as Part V of the Federal Register of December 9, 1977. A copy of the proposed rules was sent to your institution by the Federal Reserve Bank of your district shortly thereafter.

As a result of comments and suggestions received during the proposed rulemaking period, certain changes have been made and are incorporated in these rules. Each of the significant changes are discussed in detail in the preamble.

There are also enclosed (1) a copy of the "Procedural Instructions for Treasury Tax and Loan Depositaries," which supplement certain sections of the regulations, and (2) "Election of Option" forms.

It would be helpful if, as soon as your institution makes the determination as to which option it will select, you would send a completed "Election of Option" form to the Federal Reserve Bank of your district so as to allow adequate time to effect the necessary preliminary arrangements. Your assistance will be appreciated.

Should you have questions or comments regarding the revised tax and loan system, you may contact personnel in my office at the Treasury as stated in the preamble of the enclosed rules, or you may contact the Federal Reserve Bank of your district. In a separate letter, each Federal Reserve Bank will provide you with the telephone numbers of the people to contact within the Federal Reserve Bank. Also, the Federal Reserve Bank of your district will provide additional instructions either with this package or at a later date.

We hope that your institution will continue to participate in the Treasury Tax and Loan Account System.

Sincerely yours,

Paul H. Taylor

Paul H. Taylor
Deputy Fiscal Assistant Secretary

federal register

TUESDAY, MAY 2, 1978
PART III

DEPARTMENT OF THE TREASURY

Fiscal Service

TREASURY TAX AND LOAN ACCOUNTS

[4810-40]

Title 31—Money and Finance: Treasury

CHAPTER II—FISCAL SERVICE; DEPARTMENT OF TREASURY

TREASURY TAX AND LOAN ACCOUNTS

Final Rule and Interim Rule

AGENCY: Fiscal Service, Department of the Treasury.

ACTION: Final rule and interim rule.

SUMMARY: The Treasury Department is amending its regulations to implement the investment provisions of Pub. L. 95-147 of October 28, 1977. The intent of that law is to permit the Treasury to earn interest by the investment of its operating cash balances and, at the same time, pay fees for certain services which have not heretofore been compensable. The law and these regulations also make certain savings and loan associations and credit unions eligible to participate in the Treasury tax and loan account system. Previously, only incorporated banks and trust companies were eligible. The interim regulations contain the standards for review of State-sponsored insurance arrangements. Such review will be made in order to determine if particular insurance arrangements are adequate to justify reduction of the amounts of collateral security required of a depositary to secure the balance in its Treasury tax and loan account.

EFFECTIVE DATES: The provisions of both the final and interim rules are effective July 6, 1978, provided the Congress has appropriated funds to cover the payment of fees for services rendered as provided in these regulations. If the Congress does not appropriate funds for fee payments by June 16, 1978, a notice will be published in the FEDERAL REGISTER postponing the effective date.

FOR FURTHER INFORMATION CONTACT:

Mr. John Kilcoyne, Assistant Fiscal Assistant Secretary (Banking), Office of the Fiscal Assistant Secretary, Department of the Treasury, Washington, D.C. 20220, 202-566-2849. Additionally, financial institutions having questions as to operating procedures may direct such questions to the Federal Reserve Bank or Branch serving the geographical area in which the institution is located.

SUPPLEMENTARY INFORMATION: Notice of proposed rulemaking was published in the FEDERAL REGISTER on December 9, 1977 (42 FR 62308), (a) to revise regulations: 31 CFR part 203, Special Depositaries of Public Money, and 31 CFR part 214, Depositaries for Federal Taxes; and (b) to amend: 31 CFR part 317, Regulations Governing Agencies for Issue of U.S. Savings Bonds of Series E and U.S. Savings Notes, and 31 CFR part 321, Payments by Banks and Other Financial Institutions of U.S. Savings Bonds and U.S. Savings Notes (Freedom Shares).

A public hearing was held on January 12, 1978, during which testimony was given by trade associations representing banks and savings and loan associations and by individual financial institutions. In addition, 106 written responses were received during the comment period which ended on January 19, 1978. The Treasury wishes to express its appreciation to all who provided their views.

Many of the comments received are similar in nature and have been grouped into categories by subject matter. The Department's responses to the substantive public comments received appear below. Numerous minor changes have been made in the regulations some of which are editorial in nature while others are in response to public comment and will not be discussed herein.

COMMENTS RECEIVED AND TREASURY RESPONSES

I. 31 CFR PARTS 203 AND 214

INTEREST RATE

(a) *Rate of interest.* Section 203.14 of the proposed rules stated that the rate of interest to be used in connection with the Note Option and the Remittance Option would be a "* * * weighted average rate of repurchase agreements with a one-day maturity in U.S. Government securities, which are transacted in a national money market by a sample of money center banks and non-bank primary dealers in Government securities."

Many respondents took issue with the proposed rate of interest for a wide variety of reasons. The most significant negative factors cited were: (1) the high degree of instability in the spread between the proposed rate and the Federal funds rate, (2) a general uncertainty about the pattern of fluctuations in the proposed rate over time under all money market conditions, and (3) the general unfamiliarity of the banking and thrift industry with the proposed rate.

Upon reconsideration, the Treasury is of the view that a rate of interest which is equivalent to the Federal funds rate, less a fixed spread of 25 basis points (1/4 of 1 percent), would be a more appropriate rate. A rate of interest based upon this formula satisfies the prerequisites the Treasury had established from its own perspective for an earning rate on its investments in obligations of depositaries while at the same time introducing the elements of stability and relative certainty for depositaries.

Accordingly, the proposed § 203.14, now § 203.13, has been amended.

NOTE.—Several of the sections of the proposed 31 CFR part 203 have been renumbered due to the deletion of the Maximum Balances provisions appearing as proposed § 203.4.

(b) *Use of a retroactive rate.* Several financial institutions recommended that the rate of interest applicable to note balances during a given period of time be based upon a market rate which prevailed during a prior specified period. The intent of such recommendation was that the rate to be applied would be known in advance.

The adoption of this suggestion would sever the relationship for depositaries between the cost of Treasury funds held and the earning value of such funds. At times when money market rates move sharply up or down, while at the same time the amount of note balances moves in the opposite direction, depositaries could sustain substantial losses or gains thereby injecting a highly speculative element which the Treasury and, no doubt, most depositaries could consider to be undesirable. The Treasury is, therefore, retaining the concept under which the rate of interest on the notes is based upon market rates during the same period.

COLLATERAL

Many comments were received on specific, and general, issues involving the pledge of collateral for Treasury tax and loan account balances an for note balances. These comments have been categorized as follows:

(a) *Availability of collateral.* Several respondents, particularly large money center banks, expressed concern about their capacity to pledge collateral in amounts sufficient to cover balances in their note accounts during periods when Treasury operating cash is at peak levels. At this time the Treasury is not able to quantify the scarcity of collateral and is, therefore, developing additional data to determine the extent of the problem. At the same time, the Treasury is considering what action it can take to expand categories of eligible collateral. Treasury considerations involve an analysis of what assets financial institutions hold in significant amounts that would meet the basic requirements Treasury feels good collateral should have. If it is decided eligible collateral should be broadened, an amendment to part 203 will be issued.

(b) *Need for collateral.* Two respondents suggested that the requirements for collateral security be eliminated, and another suggested that collateral

requirements be established at less than 100 percent of a depositary's liability to the Treasury.

Pub. L. 95-147 provides that investments by the Treasury in obligations or depositaries maintaining Treasury tax and loan accounts shall be secured by a pledge of collateral acceptable to the Treasury as security for tax and loan accounts. While the statute allows wide discretion to the Secretary as to the particular type of collateral that may be required, the Department is of the opinion that there is substantial doubt whether, under the present law, the Secretary has the authority to eliminate altogether the requirement that collateral security be pledged. Furthermore, even if there were no such doubt, the Department is of the opinion that a number of other considerations make it unwise to eliminate or reduce the collateral requirements for Treasury tax and loan accounts.

(c) *Conventional mortgages as eligible collateral.* The suggestion was made to include conventional residential mortgages among the categories of collateral eligible to secure tax and loan funds.

The Treasury has carefully considered this suggestion and has concluded that conventional residential mortgages do not, at this time, meet the standards of liquidity that are required of eligible collateral. The secondary market for conventional residential mortgages is not sufficiently developed to provide the degree of liquidity required.

(d) *Custodians of collateral.* Comments were received indicating that § 203.16(c) of the proposed regulations is not clear as to what custodian arrangements will be permitted or that custodian arrangements will be uniform among all the Federal Reserve Districts.

The acceptable type of custodian arrangement involves the designation of a custodian by the Federal Reserve Bank of the District in which the depositary pledging the collateral is located, and the issue by that custodian to the Federal Reserve Bank of a receipt indicating that it holds, subject to the order of the Federal Reserve Bank, collateral pledged by the depositary. Federal Reserve Banks will be expected to exercise judgment in the approval of custodians and in establishing limits on the amounts of collateral a given custodian may hold. Additionally, for those categories of collateral requiring detailed analysis of attached documents or resolution of legal questions, Federal Reserve Banks may require that the pledge of such collateral be made directly with the Federal Reserve Bank. Other than for securities involving these judgments, custodian arrangements will be in effect in all Federal Reserve Districts under similar conditions.

(e) *Federal Home Loan Banks as custodians of collateral.* Representatives of the savings and loan industry suggested that regional Federal Home Loan Banks be permitted to act as custodians of the collateral to be pledged by savings and loan associations.

The Treasury favors such an arrangement, and the Federal Reserve Banks may designate Federal Home Loan Banks as custodians subject to, of course, the development of mutually acceptable custodian arrangements.

(f) *Uniformity among Federal Reserve Banks in accepting eligible collateral.* One financial institution asked if all Federal Reserve Banks will accept any of the classes of collateral that are eligible for pledging.

The ability of Federal Reserve Banks to accept the various classes of eligible collateral may be limited by such considerations as vault capacity. Because of such limitations, the use of third-party custodian receipts may be fostered wherever appropriate. Also, the Treasury will expect Federal Reserve Banks to work with depositaries in their Districts to reduce the pledge of those types of collateral requiring large amounts of vault space and substantial servicing costs when depositaries have adequate eligible collateral in their portfolios of types with lesser space and servicing requirements.

(g) *IRS views concerning interest paid deductions under section 265(2) of the Internal Revenue Code for carrying tax exempt municipals pledged to collateralize borrowed funds (i.e., TT&L Note Balance).* A number of respondents indicated that historically, the Internal Revenue Service has attempted to deny interest-paid deductions under section 265(2) of the Internal Revenue Code whenever there appeared to be some relationship between the funds borrowed and the carrying of tax exempt obligations. The respondents requested the Treasury (Fiscal Service) to seek a ruling of the Internal Revenue Service to ensure that the election of the note option is not inhibited by a Section 265(2) tax problem. The Fiscal Service has made such a request of the Internal Revenue Service. The Internal Revenue Service has concluded that section 265(2) of the Internal Revenue Code would not apply to disallow interest deductions in connection with the investment by the Treasury in obligation of Treasury tax and loan depositaries notwithstanding the fact that the note accounts are collateralized by tax exempt securities. The Internal Revenue Service is proposing to amend Rev. Proc. 70-20 in a manner consistent with the foregoing.

(h) *Operations of the TT&L System upon implementation.* If at the beginning of the new program there is still a concern about the over-all adequacy of collateral, the Treasury may use moderation in reducing its balances at Federal Reserve Banks and increasing its investments in obligations of depositaries.

MAXIMUM BALANCES

(a) *Maximum note balances.* Several suggestions were made to the effect that depositaries should be permitted to set a maximum limitation on their note balances so that any additions to the notes in excess of that limitation would be withdrawn immediately by the Federal Reserve Bank upon receipt of advices of credit creating the excess.

The Treasury favors the adoption of this suggestion and the Federal Reserve Banks have been asked to alter their administrative procedurs to provide for the establishment of such maximum balances. The Federal Reserve System has advised that all Reserve Banks will not be able to complete such changes before the effective date of the investment program inasmuch as this capability is a recent change which was introduced during the proposed rulemaking period. As each Reserve Bank completes its changes, it will notify depositaries in its District and give each depositary an opportunity to set a maximim balance. It is expected that all Reserve Banks will have completed the necessary changes within 6 months after the date of publication of the final regulations.

(b) *Imposition of maximum balances by Federal Reserve Banks.* Several respondents questioned the proposed § 203.4, which provides that each Reserve Bank may establish a maximum balance for the tax and loan or note account of any depositary in its District. The questions were based upon lack of specifics as to the circumstances under which such maximum would be established and the concern that the application of the section woud not be uniform among the Federal Reserve Districts.

The wording of § 203.4 as proposed was similar to the wording of § 203.3 of existing regulations which have been in effect since 1967. Prior to 1967, the regulations limited a depositary's maximum balance to a specified percentage of its capital or deposits. Section 203.3 has not been invoked since 1967 and we agree the comparable section of the proposed regulations, § 203.4, should be deleted. Collateral pledged by the depositary limits the funds that a depositary may hold and, as indicated above, depositaries will be permitted to establish self-imposed ceilings on the amount of Treasury funds held. Section 203.4 has, therefore, been eliminated from the final rules.

DIRECT INVESTMENTS

Several comments were made that the regulations should specifically

state which Note Option depositaries would receive funds directly from the Treasury as described in § 203.10(b)(2).

The number of depositaries which will receive direct investments will necessarily be limited by the capacity of Federal Reserve Banks to communicate daily by telephone with each of such depositaries in order to: (1) inform the depositary of the amounts being directly invested with the depositary, and (2) to call funds from the depositary to replenish Treasury balances at Federal Reserve Banks.

Initially, the direct investments will be made only with those Class "C" depositaries willing to participate. Eventually, however, the Treasury may expand the number of participating depositaries to include 100 or so other Note Option depositaries having the largest capacity to receive direct investments. Capacity is defined as the amount of collateral the depositary is willing and able to pledge, less its note balance as generated by credits to its tax and loan account. The establishment of precise procedures for making direct investments is being deferred until the adequacy of collateral has been more clearly determined.

CALLS AND CALL PROCEDURES

(a) *Make calls on a regular basis and provide advance notice.* Several respondents objected to the proposed § 203.10(c) which states "* * * the amount of the note will be payable on demand without previous notice." Suggestions were made to the effect that the withdrawal of funds be made on a regularized basis and that calls be announced a specified number of days in advance of the date of withdrawal. Treasury expects that the timing and amount of the calls against note balances will evidence a regular pattern, reflecting the intramonthly and monthly seasonal patterns to which the Treasury's cash flows are subject. Thus, larger percentages of note balances will be called earlier in the month than later; and, therefore, note balances will tend to increase in the latter half of most months. It is believed that depositaries will, within a relatively short period, recognize a regular pattern of call actions.

As to whether advance notice of calls can be provided, it is expected that calls against class "A" and class "B" depositaries will normally be made for definite amounts for payment on a definite day in the future. However, the Treasury cannot guarantee that circumstances will not arise which will require calls for immediate payment of note balances from class "A" and class "B" depositaries in order to adequately fund Treasury balances at Federal Reserve Banks. To the extent feasible, advance notice will be given of the periods during which the regular pattern of calls might be varied.

(b) *Announce calls earlier in the day.* Several respondents suggested that the calls on class "C" depositaries should be announced earlier in the day. It is very unlikely that the procedures involved in determining the Treasury's daily cash needs, the time required for consultation with the Federal Reserve's Open Market Committee staff, and the process of communicating the call to class "C" depositaries, can be accelerated enough to allow an earlier announcement of a call action.

(c) *Wednesday calls.* Several respondents suggested that the Wednesday calls on class "C" depositaries be made not later than 10 a.m. The problems involved are the same as those mentioned in (b) above. Treasury recognizes the particular problems faced by member banks on Wednesdays due to reserve settlement requirements and, to the extent feasible, will, in consultation with the Federal Reserve Open Market Committee staff, indicate in advance the probable calls payable on Wednesdays.

(d) *Effecting withdrawals through reserve accounts.* Some respondents questioned the provisions of the rules which require that withdrawals are to be effected through the reserve account of the depositary or the reserve account of a member bank correspondent. Some suggested such alternatives as the wiring of Federal funds upon receipt of a call notice.

For many years, banks which were not members of the Federal Reserve System have been required to arrange for the payment of calls on the payment dates specified in the calls by a charge to the reserve account of a member bank correspondent so as not to put the Treasury in the position of waiting for the funds to be made available for its use. The Treasury must have the capability of withdrawing and using its operating cash when it is needed. Alternatives which require communications from the depositary in order to effect the withdrawal or place the depositary in the position of controlling the time of release of the funds are not acceptable.

(e) *Effecting calls for the withdrawal of funds from savings and loan associations through their accounts with Federal Home Loan Banks.* Several respondents suggested that withdrawal of funds from savings and loan associations be made through their accounts maintained with their respective Federal Home Loan Banks. If the savings and loan associations and the Federal Home Loan Banks can establish a procedure whereby the Treasury would have as immediate access to funds called as would be the case if charges were made to a member bank's account at a Federal Reserve Bank, then the Treasury would be agreeable to such a procedure.

NOTE OPTION

Certain characteristics of the Note Option elicited questions or responses as follows:

(a) *Characterization of the Note Option as a "purchase" of funds from the Treasury (§ 203.2(g) and § 203.10(a) and (b)(2)).* Section 203.2(g) of the proposed rules defined the Note Option to mean the "* * * choice available to depositaries under which a tax and loan depositary credits deposits to its Treasury Tax and loan account, *purchases funds* from the Treasury in the amount of such deposits to be evidenced by open-ended interest-bearing notes." [Emphasis added.] Two trade associations and a number of banking institutions requested that the word "purchases" be replaced by the word "retain" or "retains."

The Treasury is persuaded that the use of the term "purchases" may not have universal application. Accordingly, proposed § 203.2(g) has been modified to describe additions to a depositary's note account as additions to Treasury's investments in obligations of the depositary. A conforming change has been made to proposed § 203.10(a) and § 203.10(b)(2) (now § 203.9(a) and § 203.9(c)(2)).

(b) *Elimination of Tax and Loan Accounts.* One respondent suggested that in lieu of requiring funds to be placed in the tax and loan account for one day, depositaries be required to purchase funds from the Treasury on the day the tax and loan deposits are credited so that the "note" is created on that day. The purpose of the suggestion was to alleviate a potential problem under State law for some State-chartered thrift institutions in being able to function the tax and loan account. Another element of the suggestion was that no interest would be due on the note for the day of the deposit.

The Treasury feels that the adoption of the suggestion would not accurately describe the Treasury/depositary relationship, particularly for Remittance Option depositaries, and that it would not, therefore, be reasonable to adopt the suggestion.

DELIVERY REQUIREMENTS

(a) *Delivery requirements for Remittance Option—Class 2 Depositaries (§ 203.11(b)(2)(i)).* One respondent suggested that the wording of proposed § 203.11(b)(2)(i), which permitted a Remittance Option—Class 2 depositary to "* * * forward its advices of credit to the Federal Reserve Bank of the district via the most expeditious means available" created too strict a standard. The respondent stated that the section implies, for example, that if light aircraft were available, other means such as the U.S. mail would not be acceptable. The Treasury considers the use of the U.S. Postal Service to be an acceptable means of delivery for

Remittance Option—Class 2 depositaries. Accordingly, § 203.10(b)(2)(i) of the final rule reads, in part, as follows: "* * * via an available expeditious means, which includes the U.S. Postal Service."

(b) *Delivery requirements for Note Option banks.* The Treasury inadvertently omitted a subsection entitled "Delivery" from § 203.10 of the proposed rules. Such subsection is included as § 203.9(b). The subsequent subsections are relettered accordingly.

(c) *Delivery requirements for Remittance Option—Class 1 depositaries.* Many respondents took issue with the delivery requirements for Class 1 depositaries stated at § 203.11(b)(1)(i) of the proposed rule. The rule requires a Remittance Option—Class 1 depositary to "* * * establish procedures to ensure the delivery of its advices of credit at the Federal Reserve Bank of the District prior to the Federal Reserve Bank's cut-off time for processing such credits the next business day after the date of credit. * * *" Some, citing their own experience with the U.S. Postal Service, stated that timely delivery at the Federal Reserve Bank would not be possible if they were to use the mail service. Many of the respondents suggested as a solution that timeliness be based upon the postmark of the remittance under the theory that if a postmark were timely, no penalty would be assessed.

The Treasury had given a great deal of thought to the delivery requirements of the Remittance Option—Class 1 depositaries before issuing the proposed rules. It was concluded that in order for the system to function properly, and in order to maintain equity within the system, it was necessary to limit the interest-free time to one business day. Otherwise, depositaries electing the Note Option would be required to pay interest as of the first business day after receipt of a deposit while a Remittance Option—Class 1 depositary could benefit from two, three or more interest-free days merely by using the mails. If the use of postmarks were permitted, the Note Option would not be selected in numbers to make the tax and loan system work.

There are certain options that may be available to depositaries to reasonably assure next day delivery of advices of credit to the Federal Reserve Bank of the District. These include the following:

(a) At any depositary location where the Federal Reserve Bank delivers checks by courier, depositaries can, at their discretion, arrange with such couriers to deliver advices of credit on their return trips to the Federal Reserve Bank.

(b) Federal Reserve Banks of the Districts may, at their discretion, permit Regional Check Processing Centers (RCPC's) within the Districts to serve as pick-up or trans-shipping points for the tax and loan system.

(c) All Federal Reserve Banks will permit Federal Reserve Branches not now serving as points of pick-up for tax and loan account advices of credit to do so under the investment program from Remittance Option—Class 1 depositaries.

(d) Any depositary may utilize the services of a correspondent in a Federal Reserve Bank or Branch city to prepare advices of credit and deliver such advices to the reserve bank or branch on its behalf. This would involve supplying the correspondent with blank originals of its advices of credit forms and communicating the amount to be entered by phone or wire.

FEES

Numerous comments were received concerning the fee of 50 cents for each Federal tax deposit form forwarded by the depositary and processed by the Internal Revenue Service Center covering the administration of the Treasury tax and loan account as well as the handling of Federal tax deposits. The comments are summarized as follows:

(a) It is unreasonable to base 1978 fees on a survey using 1972–1973 data which have not been adjusted for inflation.

(b) No indication has been given of the method used to determine the initial fee structure for compensable services.

(c) The final regulations should state the criteria for the establishment of fees and when such fees are to be reviewed to ensure they remain current.

Other comments received indicated that the proposed payments are adequate.

The schedule of fee payments is based on the findings presented in a Report of a Study of Tax and Loan Accounts, dated June 1974. The conclusions of that Report are based upon a survey of approximately 600 commercial banks specifically selected as representative of all depositaries in the Treasury tax and loan system. The fees as determined in that study are being adopted initially because they represent the product of the best and most comprehensive study on the subject available at this time. The methodology, rationale, and findings of the study are presented in detail in that Report. The findings of the study were publicly disclosed in that a copy of the Report was distributed during July 1974 to each of the tax and loan depositaries at the time.

The Treasury recognizes the deficiencies of that Report and is proceeding to restudy the Federal tax deposit per item fee as follows:

(a) Treasury staff will complete the review now underway of procedures involved in processing Federal tax deposits in financial institutions and establishing one or more models for efficient handling. The number of model systems will depend on the need to provide different systems for different categories of institutions. For example, it might be necessary to have significantly different procedures for an institution doing business at one location as compared to an institution with branches or offices spread over a wide geographical area.

The model systems will be reviewed with trade associations of the several classes of financial institutions functioning as depositaries in order to (a) determine if there are any reasons why the proposed systems are not workable, and (b) receive any suggestions for improvement.

(b) Once the model systems have been detailed, the Treasury will commission an independent study to determine the cost involved in operating the systems. The goal of the study will be to determine the unit cost for processing Federal tax deposits and to establish fees based upon costs and reasonable profit. If clear, simple guidelines for applying different fees for different institutions can be established, a multiple fee schedule may be created. If not, a unitary fee will be established based upon average costs.

(c) The fee schedule established as a result of the study will be reviewed from time to time for appropriate adjustment, taking into consideration changes in the depositaries' costs and any changes in regulations effecting the procedures followed by depositaries in processing Federal tax deposits.

COMPENSATION FOR OTHER SERVICES PROVIDED BY FINANCIAL INSTITUTIONS

Several comments were made that the schedule of fees does not cover other types of services that financial institutions provide for the Government. Specific services mentioned include the reporting of interest and dividends to the Internal Revenue Service on Form 1099, the cashing of Government checks, and the custody and sale of food stamps. The Treasury's analyses and conclusions regarding each of these services, and others not mentioned in the comments received, but performed by commercial banks are discussed in detail in the "Report on a Study of Treasury Tax and Loan Accounts" dated June 1974.

POSITIONS OF BANKING REGULATORS

(a) *Comptroller of the Currency.* Several of the respondents inquired as to whether the note balances retained by national banks under the Note Option will be included in computing the limitation on bank indebtedness under 12 U.S.C. 82. The Comptroller of the Currency has indicated that the notes will not be subject to the aggregate indebtedness limitation of 12 U.S.C. 82.

(b) *Federal Reserve Board.* Numerous respondents questioned whether the note balances will be subject to reserve requirements. As indicated in the preamble to the proposed rules, at the present time, regulations of the Board of Governors of the Federal Reserve System and the Federal Deposit Insurance Corporation define "deposits" as including promissory notes and other obligations of banks not specifically exempted. The Treasury has been advised that the Board of Governors of the Federal Reserve System has taken formal action to exempt notes issued by banks to the Treasury from the definition of deposits. There appears today, or will appear in the next few days, in the FEDERAL REGISTER notice of the Federal Reserve Board's final rulemaking effecting this change. The action of the Board of Governors of the Federal Reserve System exempts notes issued by member banks to the Treasury from the provisions of Regulations D and Q.

(c) *Federal Deposit Insurance Corporation.* The Board of Directors of the Federal Deposit Insurance Corporation has amended FDIC's interest rate regulations (12 CFR Part 329) so as to exempt from rate restrictions generally, an insured nonmember bank's liability on its promissory notes that evidence a short-term purchase of funds from the U.S. Treasury. The FDIC's amendments to its interest rate regulations were published on page 9789 of the FEDERAL REGISTER of March 10, 1978 (43 FR 9789).

REQUIREMENTS FOR DESIGNATION

Several of the respondents commenting on behalf of thrift institutions took issue with the wording of the proposed § 203.3(b)(1)(ii) which required a financial institution to have under its charter and regulations issued by its chartering authority either general or specific authority permitting the maintenance of the tax and loan account as a demand account in order to be eligible for designation.

The Department's paramount concern is its ability to draw on its operating cash accounts as needed to meet disbursing needs. The Treasury considers it essential for funds on deposit in tax and loan accounts or invested in note accounts to be subject to withdrawals which are payable immediately (i.e., on demand) without previous notice. Thus Treasury's basic concern is to be assured that all financial institutions, including the thrift institutions, possess the *authority* to function these accounts under the condition stated above.

Another respondent indicated that the use of the word "demand account" is imprecise in that several quite different legal meanings have been attached to that term. In view of the comments received, § 203.3(b)(1)(ii) is amended to require only "general or specific authority permitting the maintenance of the tax and loan account as an account the balance in which is payable on demand without previous notice of intended withdrawal."

Several of the respondents indicated that currently certain State-chartered thrift institutions may not be authorized under State law to maintain tax and loan accounts. Some of the same respondents further stated that in their opinion the Federal law (Pub. L. 95-147) superseded State law and carried with it the extension of any authority necessary for both Federally and State-chartered institutions to be tax and loan depositaries. Neither Pub. L. 95-147 nor its legislative history specifically address the matter of Federal preemption. The question is one which the courts will ultimately have to resolve. Treasury takes no final position on the issue at this time, however, the final rule is premised on no Federal preemption.

INSURANCE PROVISIONS

One respondent representing the credit union industry requested that the regulations expressively describe the standards of review for account insurance to be undertaken by the Secretary of the Treasury. Accordingly, the Secretary's regulations concerning the adequacy of insurance arrangements are issued at 31 CFR Part 226.

Such regulations are published here as interim rules in order to avoid delay in implementing the revised Treasury tax and loan program.

The Department is of the view that, because the interim regulations set standards for programs of insurance which cover depositaries' tax and loan accounts, and thereby affect the amounts of collateral which such depositaries are required to pledge to secure public funds in such accounts, they involve a matter relating to "public property" within the meaning of 5 U.S.C. 553(a)(2). In addition, it is believed that the interim regulations involve a matter relating to "contracts," as that term is used in 5 U.S.C. 553(a)(2). Each Treasury Tax and Loan Depositary enters into a depositary contract as stated at § 203.6 and § 214.4.

Consequently, it has been determined that the regulations are not subject to the rulemaking requirements, including notice of proposed rulemaking, which are contained in 5 U.S.C. 553. Nevertheless, in accordance with 5 U.S.C. 553, interested persons may submit written comments, suggestions, data or arguments to Mr. John Kilcoyne, Assistant Fiscal Assistant Secretary (Banking), Office of the Fiscal Assistant Secretary, Department of the Treasury, Washington, D.C. 20220, 202-566-2849. Material thus submitted will be evaluated and acted upon in the same manner as if these interim regulations were a proposal. However, the interim regulations shall become effective as specified in the "EFFECTIVE DATE" section of this preamble and shall remain in effect until such time as changes are made.

THE ABSORPTION OF FLOAT BY DEPOSITARIES

Several of the respondents commented upon § 214.6(a)(1) by which depositaries are required to accept from a taxpayer "* * * a check or draft drawn on and to the order of the depositary * * *." That section further states that "* * * A depositary may at its discretion accept a check drawn on another financial institution, but it does so purely on a voluntary basis and absorbs for its own account any float involved." The substance of such comments was to request the Treasury to make allowances for uncollected funds in the accounts after the first business day after deposit.

As a matter of policy, the Treasury does not recognize uncollected funds in the tax and loan system. That policy and the provisions of 31 CFR Part 214 implementing that policy are not new to the regulations in question, but have been in effect for more than 25 years. The Treasury has concluded that the policy of not making allowances for uncollected funds in the tax and loan account system should remain in effect.

EXTEND THE INTEREST-FREE PERIOD TO MORE THAN ONE BUSINESS DAY

Several respondents suggested for a variety of reasons that interest and late fees not be imposed until the second or third business day after deposit. The Treasury has concluded that any extension of the interest-free period beyond the one business day already provided would not be in the best interest of the Federal government or the tax and loan system.

TIMING OF CHANGES IN OPTIONS

The wording of § 203.13 of the proposed rules and paragraph No. 4 of the Synopsis of the Manual of Instructions and Procedures for Treasury Tax and Loan Depositaries is not explicit as to when a requested change in options will become effective. Accordingly, the wording of that section of the Procedural Instructions concerned with changes in options has been revised to include the following:

A depositary may change from one option to another after due notice to the Federal Reserve Bank of the District. A change in option will become effective as of the first day of the next reporting cycle following receipt of such notice provided that notice is received by the Federal Reserve Bank of the District not later than the 20th of any month.

A number of respondents expressed the desire for changes in options to be permitted on a daily or a weekly basis. For reasons of an operational and an administrative nature, all changes in options will be effected only as of the first day of a reporting cycle.

TERMINATION OF CONTRACT NOTICE

Proposed § 203.17(b) and § 214.5(b) stated that a depositary may terminate its contract by submitting a notice, in writing, to the Federal Reserve Bank of the District 30 days before the date of the intended termination. Proposed § 203.17(a) and § 214.5(a) stated that the Secretary of the Treasury may terminate the contract of a Treasury tax and loan depositary at any time upon notice to that effect to that depositary. Upon reconsideration, the Treasury is of the view that the 30-day advance notice stated in § 203.17(b) and § 214.5(b) should be deleted. Accordingly, § 203.16(b) and § 214.5(b) do not require a 30-day advance notice by the depositary.

MANUAL OF INSTRUCTIONS AND PROCEDURES FOR TREASURY TAX AND LOAN DEPOSITARIES

Several respondents expressed the desire to review the Manual before it is published in final form.

In view of the relatively short time period remaining before the effective date of the investment program, the Treasury is issuing at this time through the Federal Reserve Banks a final version of the "Procedural Instructions for Treasury Tax and Loan Depositaries" (previously referred to as "Manual of Instructions and Procedures for Treasury Tax and Loan Depositaries"), with the understanding that the depositaries are free to comment on the provisions of that Procedural Instruction at any time.

SUGGESTION TO ESTABLISH AN ARRANGEMENT WHEREBY THE TAX DEPOSITS OF A REMITTANCE OPTION DEPOSITARY ARE ADDED DIRECTLY TO THE NOTE ACCOUNT OF A CORRESPONDENT DEPOSITARY

One respondent suggested that in view of the potentially large number of depositaries that would be electing the Remittance Option, the Treasury should give consideration to a tri-party arrangement involving (a) the Federal Reserve Bank, (b) a Note Option depositary bank serving as a correspondent for the Remittance Option depositary, and (c) the remittance Option depositary. Under the suggested arrangement, the Note Option depositary bank serving as correspondent for the Remittance Option depositary would, in effect, add to its note amounts which otherwise would be withdrawn from the Remittance Option correspondents. In other words, the Federal Reserve Bank, instead of withdrawing funds representing tax deposits received by a Remittance Option depositary would add those amounts to the note of the correspondent bank.

The treasury believes the suggestion has merit and may be beneficial in several respects. In particular, it offers an alternative to depositaries wishing to participate as Remittance Option—Class 1 depositaries and precluded from doing so because of the prescribed delivery requirements. The Treasury is actively studying the suggestion. Adoption of the suggestion would also give the Treasury better control of increases in the Federal Reserve Bank balance which is one of the objectives of the new system.

If it is decided to adopt the suggestion, the decision will be reflected in the FEDERAL REGISTER. Sufficient lead time will be required to permit programming changes by the Federal Reserve Banks.

SEASONAL BORROWING BY MEMBER BANKS OF THE FEDERAL RESERVE SYSTEM

One respondent representing the banking industry suggested that Federal Reserve Regulation 'A' should indicate that country banks borrowing seasonally at the discount window may simultaneously "sell" Note Option funds in the Federal funds market. This issue has been referred to the Federal Reserve Board and is under consideration by that Agency.

REGULATIONS COVERING FEES FOR ISSUING AND REDEEMING SAVINGS BONDS

II. 31 CFR PARTS 317 AND 321

DISCUSSION OF MAJOR COMMENTS

GENERAL STATEMENT

Financial institutions and others act as agents for the issue and payment of savings bonds under the provisions of application-agreements they execute and certificates of qualification issued by the Federal Reserve Banks, acting as fiscal agents of the United States, and subject to the applicable regulations governing such agents. The compensation to be paid to agents applies solely to the specific issuing and paying functions they perform under the terms of their agreements and the regulations. The regulations that govern issuing agents are set out in Department of the Treasury Circular, Public Debt Series No. 4-67 (31 CFR Part 317). The regulations that govern paying agents are set out in Department of the Treasury Circular No. 750 (31 CFR Part 321). The fee schedules will be incorporated into each of these circulars.

SAVINGS BOND REMITTANCE PROCEDURES

31 CFR, Part 203 contemplates that the interest and penalty provisions of the investment program will apply both to tax and loan deposits representing tax receipts and tax and loan deposits representing savings bond sales proceeds. However, as an interim measure, to facilitate implementation of the investment program, remittances of savings bond sales proceeds by credit to tax and loan accounts will initially be functioned as follows:

Note Option depositaries. The amount of credits covering savings bond sales proceeds will be added to notes as of the dates of processing of the credit advices by the Federal Reserve Banks.

Remittance Option—Class 1 depositaries. Penalty provisions will not be applied to savings bond sales proceeds remittances.

Remittance Option—Class 2 depositaries. For purposes of computing the analysis credit, the amount of credits covering savings bond sales proceeds will be added to the balances in the depositaries' tax and loan accounts as of the dates of processing by the Federal Reserve Banks.

About three months after implementation of the investment program, the Treasury will prescribe definitive procedures under which credit advices for savings bond sales proceeds will be handled on the same basis as credit advices for tax deposits. Before the definitive procedures are put into effect, a notice of their effective date will be published in the FEDERAL REGISTER and depositaries will be notified through the Federal Reserve Bank of the District.

ADEQUACY OF FEE SCHEDULE

A number of the organizations commented that the proposed fees for issuing and redeeming savings bonds were generally too low. Others specifically referred to the redemption fee and the over-the-counter issue fee as being too low. Reasons usually given for questioning the fee schedule were that (1) it was based on outdated data and did not consider the impact of inflation on salary and other processing costs, and (2) the compensable activities were to narrowly defined and did not consider costs of counseling time, postage, record-keeping, accounting and liability for stock.

The fees for over-the-counter issues and for redemptions were based essentially on a research study conducted in 1974. The fees for payroll issues were based essentially on the alternative costs of such issues by Federal agencies and Federal Reserve Banks.

The issue fees relate strictly to costs associated with obtaining and controlling bond stock and inscribing and delivering bonds to purchasers, exclusive of postage which is paid by the Treasury.

Counseling services relating to savings bonds, like counseling on other financial matters, have traditionally been provided to customers by financial institutions without compensation. These services are viewed essentially as customer services. Their value to the Savings Bond Program is clear-

ly recognized and appreciated. However, services outside the issuing and paying agency regulations are not compensable; in addition, there is no practical way of measuring the services provided by individual institutions as the basis for establishing a standard fee.

In response to the comments mentioned above, a review of the fee schedule will be undertaken. It is necessary, however, to initiate the fee program on the basis of the proposed schedule to avoid further substantial delays in implementation. Funds for the payment of fees must be obtained through the appropriation process, and a funding request based on the original schedule has been submitted to and is under consideration by the Congress.

COMPENSATION FOR REISSUE TRANSACTIONS

Several respondents commented that agents should be compensated for handling reissue cases, which must be forwarded to the Federal Reserve Bank for processing.

Servicing applications for reissue is not one of the functions covered by the issuing and paying agent agreements referred to above. Historically, the Treasury has viewed such services as being within the scope of customer services provided by the institution. This is the principal reason no provision has been made to pay a fee for such services. A further reason is the difficulty in administering such a fee, inasmuch as Treasury would have no means of determining how much assistance, if any, had been provided by a financial institution on a reissue case.

COMPENSATION FOR EXCHANGE TRANSACTIONS

It was also suggested that agents should be compensated for handling exchanges of Series E for Series H bonds. In these transactins, all of the Series H bonds are issued by Federal Reserve Banks or the Treasury. However, the regulations governing such exchanges provide that paying agents may elect to redeem the Series E bonds and send the exchange application (Form PD 3253) to a Federal Reserve Bank for issue of the Series H bonds. If the transaction is handled in this manner, the agent receives a fee for each Series E bond that is redeemed. If the agent does not redeem the bonds, the entire transaction is forwarded to a Federal Reserve Bank and no fee is paid.

It is recognized that in a limited number of cases agents are not authorized to redeem Series E bonds submitted for exchange because of evidentiary requirements. A review will be made to determine whether it is feasible to amend the regulations to provide procedures under which agents might qualify for fees in handling these cases.

MISCELLANEOUS PROVISIONS FOR FEE CHARGES

Other proposals concerning fees included establishing regional fee schedules; basing fees on the percentage of dollar amounts handled in addition to per item fees; reexamining the fee difference between manual and computerized handling of payroll issues to provide more incentive to automate; and, compensating agents for the verification of the issuance of bonds later reported missing.

Regional fee schedules would create difficult administrative problems.

There appears to be no justification for basing a fee on dollar amounts, as well as item charges. Paying agents incur no risk of liability for erroneous payments if they follow the Treasury's identification guidelines (Form PD 3900).

The spread between the fees for bonds inscribed by computers and by other means recognized a cost differential between the two processing methods. This appeared to be equitable, although it might conceivable operate as a disincentive to the further automation of payroll issues. Decisions to automate are typically made on the basis of equipment availability, operational priorities and considerations of space, personnel and productivity. It is estimated that about half of the payroll issues by financial institutions are computer-inscribed. The number of issues that would be automated if the 10 cent fee per bond was raised is a matter of conjecture, as many of the payroll accounts are too small to justify automation, or the agent may not have access to a computer. In the subsequent review of the fee schedule, however, this matter will be further considered.

The verification by issuing agents of their issuance of bonds reported lost or stolen is limited to bonds not received by owners. Claims cases involving loss or theft after receipt are not referred to the issuing agents for verification. The number of non-receipt cases is about 10,000 a year. About half of all bonds are issued by financial institutions, so the number of referrals to an individual agent should be minimal. No fee for this service appears to be warranted, but the Treasury will review its procedures to determine whether the cases requiring referral to agents can be further reduced.

REVIEW OF FEE SCHEDULE

As mentioned, various respondents expressed the opinion that the Treasury study made in 1974, on which the fee schedule is largely based, has been outdated by inflation and that the study should be updated or a new study conducted.

Various proposals were made concerning the method to be used in conducting such a study. It was suggested that a new study consider the fully allocated costs of each functional and procedural element of issuing, redeeming and otherwise handling bonds; that the regulations provide for a periodic review of the fee schedule and the scope of compensable services; and that the regulations express the standards for establishing fees and the criteria for evaluating readjustments.

The Treasury recognizes the desirability of reexamining the adequacy of the fee schedule and will initiate such a review promptly. The review will include a reexamination of some of the proposals discussed elsewhere in this response. Provisions for the regular review of the schedule should be a part of any plan that is developed. It should be recognized, however, that any review will deal primarily with over-the-counter issues and redemptions. Fees for payroll issues will be governed largely by the alternative costs of such issues by Federal agencies and Federal Reserve Banks.

There is no assurance that savings bond fees can (or should) be based purely on costs. It may be necessary or advisable to establish fees for issuing and redeeming bonds that financial institutions would be free to accept or reject. In their comments on the schedule, agents reported costs as high as $2.66 for issuing bonds and $1.50 for redeeming bonds. The issue of a bond purchased for $18.75 does not justify fees of these amounts. Moreover, the question of recompense must be considered in the context of the effect on the Savings Bond Program as a whole.

The Treasury cannot implement changes in the fee schedule without first seeking Congressional approval through the regular appropriation process.

Any changes, including an explanation of their basis, will be published as revisions of the regulations.

CREDITS AND CHARGES TO TAX AND LOAN ACCOUNTS

Two respondents questioned the statement in the regulations that funds would be deposited into the tax and loan accounts in accordance with the instructions of the Federal Reserve Bank of the District. Both felt that instructions should be uniform throughout the country. Another respondent felt that if funds collected from the issuance of savings bonds are to be placed in interest-bearing tax and loan accounts, funds used to redeem bonds should be disbursed from those accounts.

The rules for depositing savings bond sale proceeds in tax and loan accounts are uniform. Instructions to issuing and paying agents are customarily issued by the qualifying Federal

Reserve Banks, and the practice includes such activities as crediting sales proceeds. Except for minor local variations, the instructions issued by each Reserve Bank are standard.

The disbursement of tax and loan funds by depositaries in payment of savings bonds and notes would not be feasible because of the control and accounting problems such a procedure would create.

CHARGES TO CUSTOMERS

Questions were also raised about the collection of fees from customers.

No fee may be imposed by agents on bondowners for the redemption of bonds or on purchasers for the issue of bonds over-the-counter or through bond-a-month plans.

In the case of payroll issues by financial institutions for customers which operate payroll savings plans, the Department recognizes that the parties have often entered into compensatory arrangements, particularly when the bond issuance function is an interrelated part of a package of varied financial services, or when the issuing agent must perform preparatory work prior to inscribing the bonds.

The regulations prohibit the acceptance of dual compensation for obtaining and controlling bond stock and inscribing and delivering bonds. However, the regulations do not prohibit financial institutions from electing to continue compensatory arrangements with customers, in lieu of accepting a fee from the Treasury for bond issuance functions; nor do they prohibit such institutions from obtaining supplemental compensation for services not immediately concerned with inscribing and delivering bonds, such as converting data from hard copy to magnetic tape for bond inscription purposes.

PAYMENT OF FEES

One respondent indicated that the regulations did not address the way in which fees will be paid and stated that the reserve account should be used for fee payment, as well as penalty charges.

Given the diversity of issuing and paying agents, fees will be paid by checks issued quarterly by the Division of Disbursement, Bureau of Government Financial Operations, on the basis of data prepared by the Bureau of the Public Debt. Each agent eligible for a fee has been furnished with a pamphlet that explains, among other things, the calculation and payment of fees.

* * * * * *

In consideration of all of the foregoing, 31 CFR Chapter II is amended as follows:

PART 203—TREASURY TAX AND LOAN DEPOSITARIES

1. 31 CFR Part 203 (Department Circular No. 92) is revised to read as follows:

Subpart A—General Information

Sec.

Subpart B—Options

Subpart C—Interest and Compensation

Subpart D—Collateral Security

Subpart E—Miscellaneous Provisions

AUTHORITY: Sec. 8, Act of Sept. 24, 1917, Chapter 56, 40 Stat. 291, as amended (31 U.S.C. 771); Sec. 6302(c), Internal Revenue Code of 1954; and Secs. 1, 2, and 3, Pub. L. 95-147, 91 Stat. 1227 (31 U.S.C. 1038); unless otherwise noted.

Subpart A—General Information

§ 203.1 Scope of regulations.

The regulations in this part govern the designation of Treasury tax and loan depositaries and their contract with the Treasury Department to maintain and administer separate accounts to be known as Treasury tax and loan accounts in which funds representing payments for certain United States obligations and payments of Federal taxes are credited.

§ 203.2 Definitions.

As used in this part:

(a) "Advices of credit" means those Treasury forms, which are supplied to tax and loan depositaries to be used in supporting credits to Treasury tax and loan accounts.

(b) "Business day" means any day on which the Federal Reserve Bank of the district is open to the public.

(c) "Election of Option form" means a document, preprinted and supplied by the Federal Reserve Bank of each district, on which a tax and loan depositary indicates the option under which it will administer its Treasury tax and loan account after the effective date of this Part.

(d) "Federal funds rate" means the weekly Federal funds rate as published in the Federal Reserve Bulletin in Table A-27 entitled "Interest Rates, Money and Capital Markets".

(e) "Federal Reserve Bank of the district" means the Federal Reserve Bank which services the geographical area in which the tax and loan depositary is located. Tax and loan depositaries located in Puerto Rico, the Virgin Islands, and the Panama Canal Zone are included in the Second Federal Reserve District.

(f) "Federal tax deposit form" means a preinscribed form supplied to a taxpayer by the Treasury Department to accompany deposits of Federal taxes.

(g) "Federal taxes" means those Federal taxes specified by the Secretary of the Treasury or the Secretary's delegate as eligible for payment through the procedure prescribed in this part and Part 214.

(h) "Note Option" means that choice available to a tax and loan depositary under which funds debited to its Treasury tax and loan account are added by the Treasury to its investments in obligations of the depositary. The amount of such investments will be evidenced by an open-ended interest-bearing note maintained at the Federal Reserve Bank of the district.

(i) "Recognized Insurance Coverage" means the insurance provided by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, the National Credit Union Share Insurance Fund, and the insurance provided by insurance organizations specifically qualified by the Secretary of the Treasury pursuant to 31 CFR Part 226.

(j) "Remittance Option" means that choice available to a tax and loan depositary under which funds equivalent to the amount of deposits credited by the depositary to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank immediately upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits.

(k) "Reporting cycle" means the time period established for reporting and computation purposes. A reporting cycle begins on the first Thursday of each month and ends on the Wednesday preceding the first Thursday of the following month.

(l) "Reserve account" means that account every member of the Federal Reserve System maintains at the Federal Reserve Bank of its district for reserve purposes pursuant to 12 CFR Part 204.

(m) "Special depositary" means a depositary that had been designated under the provisions of 31 CFR Part 203 prior to the effective date of this revision. A depositary thereafter desig-

nated under this Part shall be known as a Treasury tax and loan depositary.

§ 203.3 Designation of financial institutions as Treasury tax loan depositaries.

(a) *Previously authorized depositaries.* Every special depositary which, at the close of business on July 5, 1978, was authorized to maintain a Treasury tax and loan account is hereby redesignated as a Treasury tax and loan depositary. The agreements under which they were heretofore authorized as Special Depositaries of Public Money are continued in effect without further action, but subject to the provisions of the current Part 203.

(b) *New designations*—(1) *Requirements.*—(i) *Eligible institutions.* The following classes of financial institutions are eligible to be designated as Treasury tax and loan depositaries:

(A) Every incorporated bank and trust company in the United States, Puerto Rico, the Virgin Islands, the Panama Canal Zone, and every United States branch of a foreign banking corporation authorized by the State in which it is located to transact commercial banking business.

(B) Every institution insured by the Federal Savings and Loan Insurance Corporation.

(C) Every credit union insured by the Administrator of the National Credit Union Administration.

(D) Savings and loan, building and loan, homestead associations, and credit unions, created under the laws of any State, the deposits or accounts of which are insured by a State or agency thereof, or by a corporation chartered by a State for the sole purpose of insuring deposits or accounts of such financial institutions.

(ii) *Other requirements.* In order to meet Treasury requirements for designation, each financial institution is required to possess under its charter and regulations issued by its chartering authority either general or specific authority permitting the maintenance of the tax and loan account as an account, the balance in which is payable on demand without previous notice of intended withdrawal. Each financial institution is required to also possess the authority to pledge collateral to secure Treasury tax and loan funds.

(2) *Application procedures.* Any eligible financial institution seeking designation as a Treasury tax and loan depositary and, thereby, the authority to maintain a Treasury tax and loan account shall file with the Federal Reserve Bank of the district an "Offer to Contract and Application" accompanied by a resolution of its board directors authorizing the "Offer to Contract and Application" (both on forms prescribed and available on request from the Federal Reserve Bank).

(3) *Designation.* Each financial institution satisfying the eligibility requirements and the application procedures will receive from the Federal Reserve Bank of the district notification of its specific designation as a Treasury tax and loan depositary. A financial institution is not authorized to maintain a Treasury tax and loan account until it has been designated as a Treasury tax and loan depositary by the Federal Reserve Bank of the district.

§ 203.4 Sources of deposit.

A tax and loan depositary shall credit to its Treasury tax and loan account payments of such Federal taxes as the Secretary of the Treasury may from time to time by regulation authorize to be paid through Treasury tax and loan accounts, and may credit to its Treasury tax and loan account funds representing:

(a) Payments for United States Savings Bonds issued by the tax and loan depositary, in its issuing agent capacity;

(b) Payments for United States Savings Bonds subscribed for through the tax and loan depositary on behalf of its customers, but which may be issued only by Federal Reserve Banks and the United States Treasury Department.

§ 203.5 Directives regarding credits (deposits) to Treasury tax and loan accounts.

(a) Payments for United States Savings Bonds shall be credited in accordance with instructions prescribed by the Federal Reserve Bank of the district.

(b) Federal tax payments shall be credited in accordance with Part 214 of this Chapter and any instructions issued pursuant to that Part.

§ 203.6 Parties to the contract.

A financial institution which is designated as a Treasury tax and loan depositary enters into a depositary contract with the Department of the Treasury. The parties to this contract are the Treasury, acting through the Federal Reserve Banks as Fiscal Agents of the United States, and each financial institution designated under § 203.3. The terms of the contract include all of the provisions of this part.

§ 203.7 Obligations of the depositary.

A Treasury tax and loan depositary shall:

(a) Administer a Treasury tax and loan account in accordance with this Part and any amendments or supplements thereto, and instructions issued pursuant thereto, including the Procedural Instructions for Treasury Tax and Loan Depositaries;

(b) Comply with the requirements of section 202 of Executive Order 11246, entitled "Equal Employment Opportunity" (30 FR 12319) as amended by Executive Order 11375, entitled "Equal Employment Opportunity Clause," which is incorporated herein by reference, and the regulations issued thereunder at 41 CFR Chapter 60, as amended. The Secretary of the Treasury may terminate the contract with a tax and loan depositary for failure to comply with the terms of the contract set forth in this subsection, relating to equal employment opportunity, after following the procedures specified by the U.S. Department of Labor at 41 CFR Part 60-30, as amended.

(c) Comply with the requirements of section 503 of the Rehabilitation Act of 1973, 29 U.S.C. 793, and the regulations issued thereunder at 20 CFR Part 741, which are incorporated herein by reference, requiring Government contractors to take affirmative action to employ qualified handicapped individuals, and

(d) Comply with requirements of section 503 of the Veterans Employment and Readjustment Act of 1972, 38 U.S.C. 2012, Executive Order 11701, and the regulations issued thereunder at 41 CFR Subpart 1-12.11, which are incorporated herein by reference, for the promotion of employment of disabled and Vietnam era veterans.

Subpart B—Options

§ 203.8 General requirement.

A Treasury tax and loan depositary shall administer its Treasury tax and loan account under either the Note Option or the Remittance Option.

§ 203.9 Note Option.

(a) *Additions.* The Treasury will invest funds in obligations of depositaries selecting the Note Option. Such obligations shall be in the form of open-ended notes and additions and reductions will be reflected on the books of the Federal Reserve Bank of the district. A depositary electing the Note Option shall, as of the first business day after crediting deposits to its tax and loan account, debit its tax and loan account in the amount of such deposits and simultaneously credit the note thereby reflecting an increase in like amount in Treasury's investment in obligations of the depositary.

(b) *Delivery.* A depositary administering its tax and loan account under the Note Option shall forward at the close of business each day its advices of credit for that day to the Federal Reserve Bank of the district via the most expeditious means reasonably available including the U.S. Postal Service in instances where more positive delivery systems, in terms of date of delivery, are not being utilized by the depositary for other documents (e.g., checks) being remitted to the Federal Reserve Bank or Branch city.

(c) *Other Additions.* (1) A tax and loan depositary may be given the

option of adding directly to its note the amounts of payments made by, or through, it for allotments on tenders and subscriptions for United States securities issued under the Second Liberty Bond Act, 40 Stat. 268, as amended when such method of payment is provided for under the terms of the Treasury's offering circulars. The amounts of payments shall be added to the amount of the note on the dates of settlement.

(2) In addition, other funds from the Treasury's operating cash may be offered from time to time to certain Note Option depositaries. Each such Note Option depositary shall have the opportunity to decide whether it wishes to receive from the Treasury such additional investments in its notes.

(d) *Withdrawals.* The amount of the note shall be payable on demand without previous notice. Calls for payments on the note will be by direction of the Secretary of the Treasury through the Federal Reserve Banks. A depositary shall arrange for the payment of calls on the payment dates specified in the calls by a charge to the reserve account of a depositary or the reserve account of a member bank correspondent.

(e) *Interest.* A note shall bear interest at the rate specified in § 203.13. Such interest is payable monthly by a charge to the reserve account of the depositary or through the reserve account of a member bank correspondent. Specific details about the computation of the amount of interest due, the means of payment, payment dates, Federal Reserve Bank responsibilities, and other related details are described in the Procedural Instructions for Treasury Tax and Loan Depositaries.

(f) *Maximum Balance.* As of the date specified by each Federal Reserve Bank, each depositary selecting the Note Option may establish a maximum balance for its note account by providing notice to that effect in writing to the Federal Reserve Bank of the district. That portion of any advice of credit when posted at the Federal Reserve Bank which would cause the note balance to exceed the amount specified by the depositary will be automatically withdrawn by the Federal Reserve Bank.

§ 203.10 Remittance Option.

(a) *Withdrawals.* For a depositary selecting the Remittance Option, funds equivalent to the amount of deposits credited by a depositary to its Treasury tax and loan account will be withdrawn by the Federal Reserve Bank upon receipt by the Federal Reserve Bank of the advices of credit supporting such deposits. A depositary shall arrange for the payment of withdrawals by an immediate charge to its reserve account or the reserve account of a member bank correspondent.

(b) *Remittance Option Classes.* Depositaries electing this option will be subdivided into Remittance Option Class 1 or Class 2 depending upon the volume of deposits credited to their tax and loan accounts during the previous calendar year, as specified in the Procedural Instructions for Treasury Tax and Loan Depositaries. Each depositary shall be subject to the provisions applicable to the class into which it is placed.

(1) *Remittance Option—Class 1 requirements.*—(i) *Delivery.* A Remittance Option—Class 1 depositary shall establish and maintain procedures to ensure timely delivery of its advices of credit at the Federal Reserve Bank of the district prior to the Federal Reserve Bank's cutoff time for processing such credits the next business day after the date of credit. If a depositary, whose volume of credits is higher than the amount specified in the Procedural Instructions for Treasury Tax and Loan Depositaries, does not arrange to forward its advices of credit so that they regularly arrive at the Federal Reserve Bank prior to the designated cutoff hour, it should elect the Note Option.

(ii) *Late fee.* If an advice of credit does not arrive at the Federal Reserve Bank before the designated cutoff hour for receipt of such advices, a late fee in the form of interest at the rate specified at § 203.13 will be assessed for each day's delay in receipt of such advice. Such late fee assessments will be effected on a monthly basis through a depositary's reserve account or the reserve account of a member bank correspondent. Specific details and procedures are included in the Procedural Instructions for Treasury Tax and Loan Depositaries.

(2) *Remittance Option—Class 2 requirements.*—(i) *Delivery.* A depositary administering its tax and loan account under the Remittance Option—Class 2 shall forward its advices of credit to the Federal Reserve Bank of the district via an available expeditious means, which includes the U.S. Postal Service.

(ii) *Analysis credit.* All tax and loan balances which are in excess of a current day's credits will be subject to an analysis credit, as explained in § 203.14 and the Procedural Instructions for Treasury Tax and Loan Depositaries.

(iii) *Excessive flow.* A depositary may continue as a Class 2 depositary if the rate of flow of deposits it accepts does not exceed the limitation prescribed therefor in the Procedural Instructions for Treasury Tax and Loan Depositaries. If a depositary's flow exceeds that limitation, it shall administer its tax and loan account as a Remittance Option—Class 1, or a Note Option depositary. Specific details and procedures concerning the excessive flow of deposits are described in the Procedural Instructions for Treasury Tax and Loan Depositaries.

§ 203.11 Election of option by previously authorized depositaries.

(a) *General.* A depositary which, as of the close of business on July 5, 1978, was authorized to maintain a tax and loan account and which wishes to administer a tax and loan account under the Note Option or the Remittance Option shall file with the Federal Reserve Bank of the district an Election of Option form signed by an official authorized to act on behalf of the depositary. The depositary will receive from the Federal Reserve Bank notice as to the effective date of that election. Until July 6, 1978, each authorized depositary shall continue to administer its tax and loan account under its authorization prior to that date.

(b) *Depositaries not filing an Election of Option form, yet accepting tax deposits.* A depositary authorized prior to July 6, 1978, to administer a Treasury tax and loan account, but which has not filed an Election of Option form by that date, or having filed that form, has not received from the Federal Reserve Bank prior to that date notice as to the effective date of that election shall on and after July 6, 1978, if it continues to credit deposits to the Treasury tax and loan account by entering such credits, be presumed to have assented to all terms and provisions of this part and to be administering the tax and loan account under the Remittance Option.

(c) *Inactive depositaries.* The authority of a depositary, authorized prior to July 6, 1978, to administer a Treasury tax and loan account, which depositary has not filed an Election of Option form and whose tax and loan account has had no credits for six months after July 6, 1978, will be revoked automatically. Thereafter, to accept deposits for credit to a Treasury tax and loan account, the financial institution shall seek new designation in accordance with § 203.3.

§ 203.12 Change of options.

A depositary is subject to the provisions of the option it has selected until such time as it provides notice to the Federal Reserve Bank requesting a change in option and receives formal notification from the Federal Reserve Bank of the effective date of the change of option. Specific details regarding changes in option are included in the Procedural Instructions for Treasury Tax and Loan Depositaries.

Subpart C—Interest and Compensation

§ 203.13 Rate of interest.

The rate of interest to be used in connection with the Note Option and

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the Remittance Option will be equal to the Federal funds rate less twenty-five basis points (i.e., ¼ of 1 percent). Details about the computation are included in the Procedural Instructions for Treasury Tax and Loan Depositaries.

§ 203.14 Compensation for services rendered.

(a) *General.* Depositaries will not be separately compensated for servicing the tax and loan account, but the bookkeeping costs of maintaining that account are considered in establishing the per-item fee for each Federal tax deposit, as prescribed at § 214.6(b) of this chapter.

(b) *Remittance Option—Class 2 depositaries.* Fees payable to Remittance Option—Class 2 depositaries for Federal tax deposits will be reduced by an analysis credit representing the value of the balances in tax and loan accounts in excess of a current day's credits. Specific details regarding the determination of the amount of compensation due are discussed in the Procedural Instructions for Treasury Tax and Loan Depositaries.

Subpart D—Collateral Security

§ 203.15 Collateral security requirements.

(a) *Note Option.* Prior to crediting deposits to its Treasury tax and loan account, a Note Option depositary shall pledge collateral security in accordance with the requirements and valuations of paragraph (d) of this section, to cover 100 percent of the amount of the note balance and the closing balance in its Treasury tax and loan account which exceeds recognized insurance coverage.

(b) *Remittance Option.* Prior to crediting deposits to its Treasury tax and loan account, a Remittance Option depositary shall pledge collateral security in accordance with the requirements and valuations of paragraph (d) of this section in an amount which is sufficient to cover the maximum balance in the tax and loan account at the close of business each day, less recognized insurance coverage.

(c) *Deposit of securities.* Collateral security required under paragraphs (a) and (b) of this section shall be deposited with the Federal Reserve Bank of the district, or with a custodian or custodians within the United States designated by the Federal Reserve Bank, under terms and conditions prescribed by the Federal Reserve Bank.

(d) *Acceptable securities.* Unless otherwise specified by the Secretary of the Treasury, collateral security pledged under this section may be transferable securities of any of the following classes:

(1) Obligations issued or fully insured or guaranteed by the United States or any U.S. Government agency, and obligations of Government-sponsored corporations which under specific statute may be accepted as security for public funds: At face value.

(2) Obligations issued or fully guaranteed by the International Bank for Reconstruction and Development, the Inter-American Development Bank or the Asian Development Bank: At face value.

(3) Obligations partially insured or guaranteed by any U.S. Government agency: At a value equal to the amount of the insurance or guaranty.

(4) Notes representing loans to students in colleges or vocational schools which are insured either by Federal insurance or by a State agency or private nonprofit institution or organization administering a student loan insurance program in accordance with a formal agreement with the Commissioner of Education under the provisions of the Higher Education Act of 1965 or the National Vocational Student Loan Insurance Act of 1965: At face value.

(5) Obligations issued by States of the United States: At 90 percent of face value.

(6) Obligations of Puerto Rico: At 90 percent of face value.

(7) Obligations of counties, cities, and other governmental authorities and instrumentalities which are not in default as to payments on principal or interest: At 80 percent of face value.

(8) Obligations of domestic corporations which may be purchased by banks as investment securities under the limitations established by Federal bank regulatory agencies: At 80 percent of face value.

(9) Commercial and agricultural paper and bankers' acceptances approved by the Federal Reserve Bank of the district and having a maturity at the time of pledge of not to exceed one year: At 90 percent of face value.

(e) *Assignment of securities.* A tax and loan depositary that pledges securities which are not negotiable without its endorsement or assignment may, in lieu of placing its unqualified endorsement on each security, furnish and appropriate resolution and irrevocable power of attorney authorizing the Federal Reserve Bank to assign the securities. The resolution and power of attorney shall conform to such terms and conditions as the Federal Reserve Bank shall prescribe.

Subpart E—Miscellaneous Provisions

§ 203.16 Termination of contract.

(a) *Termination by the Treasury.* The Secretary of the Treasury may terminate the contract of a Treasury tax and loan depositary at any time upon notice to that effect to that depositary effective at a prospective date set forth in the notice.

(b) *Termination by the tax and loan depositary.* A tax and loan depositary may terminate its depositary contract by submitting notice to that effect in writing to the Federal Reserve Bank of the district effective at a prospective date set forth in the notice.

§ 203.17 Implementing instructions.

Each Federal Reserve Bank is authorized to issue implementing instructions consistent with this part, which instructions shall be binding upon tax and loan depositaries located in its district.

§ 203.18 Effective date.

This revision of this part is effective on July 6, 1978.

2. 31 CFR Part 214 (Department Circular No. 1079) is revised to read as follows:

PART 214—DEPOSITARIES FOR FEDERAL TAXES

Sec.
214.1 Scope of regulations.
214.2 Definitions.
214.3 Designation.
214.4 Depositary Contract.
214.5 Termination of contract.
214.6 Deposits of Federal taxes with depositaries.
214.7 Deposits of Federal taxes with Federal Reserve Banks.
214.8 Additional instructions.
214.9 Effective date.

AUTHORITY: Sec. 10, 56 Stat. 356, as amended (12 U.S.C. 265); sec. 15, 38 Stat. 265 (12 U.S.C. 391); sec. 8, 40 Stat. 291, as amended (31 U.S.C. 771); sec. 6302(c), Internal Revenue Code of 1954, as amended; secs. 1, 2 and 3, Pub. L. 95-147, 91 Stat. 1227 (31 U.S.C. 1038).

§ 214.1 Scope of regulations.

The regulations in this revision of this part govern the designation of financial institutions as depositaries for Federal taxes and the handling of deposits of Federal taxes by such depositaries and by Federal Reserve Banks.

§ 214.2 Definitions.

As used in this part:

(a) "Depositary" means a depositary for Federal taxes.

(b) "Federal Reserve Bank of the district" means the Federal Reserve Bank serving the geographical area in which the financial institution is located. For this purpose, depositaries located in Puerto Rico, the Virgin Islands and the Panama Canal Zone are included in the Second Federal Reserve District.

(c) "Federal tax deposit form" means a preinscribed form supplied to a taxpayer by the Treasury Department to accompany deposits of Federal taxes made under the procedure prescribed by this part.

(d) "Federal taxes" means those Federal taxes specified by the Secre-

tary of the Treasury or the Secretary's delegate as eligible for payment through the procedure prescribed by this part.

(e) "Immediate credit item" means a check or other payment instrument for which immediate credit is given in accordance with the check collection schedule of the receiving Federal Reserve Bank or Branch of the district.

(f) "Qualified depositary for Federal taxes" means a previously designated depositary for Federal taxes that, at the close of business July 5, 1978, was qualified by the Federal Reserve Bank of the district under the provisions of the former Part 214 of this chapter.

§ 214.3 Designation.

(a) *Previously designated depositaries.* (1) The designation of each qualified depositary for Federal taxes which, at the close of business on July 5, 1978, was authorized to maintain a Treasury tax and loan account under the provisions of the former Part 203 of this chapter is hereby extended. The agreements under which they were heretofore authorized as Special Depositaries of Public Money are continued in effect without further action, but subject to the provisions of the current Part 203 of this chapter.

(b) *New designations.*—(1) *Eligibility.* Each financial institution designated as a Treasury tax and loan depositary under the provisions of Part 203 of this chapter is eligible for designation as a depositary for Federal taxes.

(2) *Application for designation.* Any eligible financial institution seeking designation as a depositary for Federal taxes shall file with the Federal Reserve Bank of the district an "Offer to Contract and Application" accompanied by a resolution of its Board of Directors authorizing the "Offer to Contract and Application," both on forms preinscribed by and available on request from the Federal Reserve Bank. Any financial institution not already designated as a Treasury tax and loan depositary may make simultaneous application with the Federal Reserve Bank for such designation as provided in § 203.3 of this part.

(3) *Designations.* Each financial institution satisfying the eligibility requirements and the application procedures will receive from the Federal Reserve Bank of the district notification of its specific designation as a depositary for Federal taxes.

§ 214.4 Depositary Contract.

The designation of a depositary under this part creates a contract between the depositary and the Treasury Department, acting through the Federal Reserve Bank as Fiscal Agent of the United States. The terms of this contract include:

(a) All of the provisions of this part except § 214.7.

(b) Any instructions issued pursuant to this part by the Treasury or by Federal Reserve Banks as Fiscal Agents of the United States.

(c) The provisions prescribed in section 202 of Executive Order 11246, entitled "Equal Employment Opportunity" (30 FR 12319) as amended by Executive Order 11375, entitled "Equal Employment Opportunity Clause."

(d) The requirements of section 503 of the Rehabilitation Act of 1973, 29 U.S.C. 793, and the regulations issued thereunder at 20 CFR Part 741, which are incorporated herein by reference, requiring Government contractors to take affirmative action to employ qualified handicapped individuals, except that depositaries which under this Part receive on an annual basis fee payments of less than $2,500 are exempt from compliance with these regulations.

(e) The requirements of section 503 of the Veterans Employment and Readjustment Act of 1972, 38 U.S.C. 2012, Executive Order 11701, and the regulations issued thereunder at 41 CFR Subpart 1-12.11, which are incorporated herein by reference, for the promotion of employment of disabled and Vietnam era veterans, except that depositaries which under this part receive on an annual basis fee payments of less than $10,000 are exempt from compliance with these regulations.

§ 214.5 Termination of contract.

(a) *By Treasury.* The Secretary of the Treasury may terminate the contract with any depositary at any time upon notice to that effect to be effective at a prospective date set forth in the notice.

(b) *By depositary.* A depositary may terminate its depositary contract by submitting a notice to that effect, in writing, to the Federal Reserve Bank of the district effective at a prospective date set forth in the notice.

§ 214.6 Deposits of Federal taxes with depositaries.

(a) *Deposits with depositaries.* A depositary shall, through any of its offices that accept deposits:

(1) Accept from a taxpayer cash, a postal money order drawn to the order of the depositary, or a check or draft drawn on and to the order of the depositary, covering an amount to be deposited as Federal taxes when accompanied by a Federal tax deposit form on which the amount of the deposit has been properly entered in the space provided. A depositary may at its discretion accept a check drawn on another financial institution, but it does so purely on a voluntary basis and absorbs for its own account any float involved.

(2) When requested to do so by a taxpayer who makes a deposit of Federal taxes in cash over the counter, issue a counter receipt.

(3) Regardless of the form of payment, in every instance place in the space provided on the face of each Federal tax deposit form a stamp impression reflecting the date on which the tax deposit was received by the depositary, by reference to which the timeliness of the tax payment will be determined, and the name and location of the depositary.

(4) Credit on the date of receipt all deposits of Federal taxes to the treasury tax and loan account and administer that account pursuant to the provisions of Part 203 of this Chapter.

(5) Forward each day to the Internal Revenue Service Center servicing the geographical area in which the depositary is located, the Federal tax deposit forms for all tax deposits received that day. Each submission of deposit information shall be on the prescribed Treasury form and in the aggregate amount of the Federal tax deposit forms.

(6) Establish, prior to transmittal to the Internal Revenue Service Center, an adequate record of all deposits of Federal taxes so that it will be able to identify deposits in the event tax deposit forms are lost in shipment between it and the Internal Revenue Service Center. For this purpose, a record shall be made of each deposit showing as a minimum the date of deposit, the taxpayer's identifying number, and the amount of the deposit. The depositary's copies of transmittal letters may be used to provide the necessary information if individual deposits are listed separately showing date, taxpayer's identifying number, and amount.

(7) Not accept compensation from taxpayers for accepting deposits of Federal taxes and handling them as required by this section.

(b) *Compensation for services.* The Treasury will compensate depositaries for Federal taxes at a uniform fee of 50 cents for each Federal tax deposit form forwarded by the depositary and processed by the Internal Revenue Service Center. This fee covers the bookkeeping costs of maintaining the Treasury tax and loan account as well as the handling of Federal tax deposits. Fees payable may be reduced by the analysis credits described in § 203.14 of this chapter.

§ 214.7 Deposits of Federal taxes with Federal Reserve Banks.

A Federal Reserve Bank shall, through any of its offices:

(a) Accept a tax deposit directly from a taxpayer when such tax deposit is:

(1) Mailed or delivered by a taxpayer located within that Bank's territorial boundaries; and

(2) In the form of cash, a check drawn to the order of that Bank and considered to be an immediate credit

item by that Bank, a postal money order drawn to the order of that Bank, or Treasury bills, as authorized in Part 309 of this Chapter, covering an amount to be deposited as Federal taxes; and,

(3) Accompanied by a Federal tax deposit form on which the amount of the tax deposit has been properly entered in the space provided.

(b) When requested to do so by a taxpayer who makes a deposit of Federal taxes in cash over the counter, issue a counter receipt.

(c) When a deposit of Federal taxes is made in accordance with the requirements of paragraph (a) of this section, a Bank shall place in the space provided on the face of each Federal tax deposit form accepted directly from a taxpayer, a stamp impression reflecting the name of the Bank and the date on which the tax deposit was received by the Bank so that the timeliness of the Federal tax payment can be determined. However, if such a deposit is mailed to a Bank, it shall be subject to the "Timely mailing treated as timely filing and paying" clause of section 7502 of the Internal Revenue Code (26 U.S.C. 7502).

(d) When a deposit of Federal taxes is not in accordance with the requirements governing form of payment set forth in paragraph (a) of this section, a Bank shall place in the space provided on the face of each Federal tax deposit form a stamp impression reflecting th name of the Bank and the date on which the proceeds of the accompanying payment instrument are collected by the Bank. This date shall be used for the purpose of determining the timeliness of the Federal tax payment.

§ 214.8 Additional instructions.

Federal Reserve Banks are authorized to issue instructions consistent with these regulations for carrying out the requirements of this part.

§ 214.9 Effective date.

The provisions of this part, as revised, become effective as of July 6, 1978.

PART 317—REGULATIONS GOVERNING AGENCIES FOR ISSUE OF U.S. SAVINGS BONDS OF SERIES E AND U.S. SAVINGS NOTES

3. 31 CFR Part 317 (Department Circular, Public Debt Series No. 4-67) is amended by revising § 317.5 to read as follows:

§ 317.5 Issuance of bonds.

(a) *General.* Issuing agents shall comply with all regulations and instructions issued by the Department of the Treasury or the Federal Reserve Banks concerning the sale, inscription, dating, validation and issue of the bonds, and disposition of the issue records. No issuing agent shall have authority to sell bonds other than as provided in the offering circulars and the governing regulations.[1]

(b) *Fees.* Issuing agents, other than Federal agencies which for the purpose of this section include Government corporations and independent establishments, will be paid for each savings bond issued during a calendar quarter as follows:

70 cents for each bond issued on sale by a financial institution on the basis of an application received over-the-counter or by mail, or under a bond-a-month plan:

30 cents for each bond issued on sale by a financial institution under a payroll plan, if the bond is inscribed by any means other than a computer;

10 cents for each bond issued on sale by a financial institution under a payroll plan, if the bond is inscribed by computer;

10 cents for each bond issued on sale by a non-financial institution; and

5 cents for each bond reissued to effect distribution to a participant in a pension, retirement, savings, vacation or similar plan.

(c) *Basis for payment of fees.* A fee will be paid for each Series E savings bond issue included in transmittals of registration stubs or magnetic tape to the Bureau of the Public Debt for the account of an eligible agent during each calendar quarter, based on the transfer dates assigned to the transmittals by a Federal Reserve Bank.

(d) *No charge to customers.* Financial institutions accepting fees from the Treasury for issuing savings bonds shall not make any charge to customers for the same service.

(e) The provisions of this section, as amended, are effective as of July 6, 1978.

PART 321—PAYMENTS BY BANKS AND OTHER FINANCIAL INSTITUTIONS OF UNITED STATES SAVINGS BONDS AND UNITED STATES SAVINGS NOTES (FREEDOM SHARES)

4. 31 CFR Part 321 (Department Circular No. 750, Second Revision) is amended by revising § 321.5 to read as follows:

* * * * *

Subpart B—Authority To Act

§ 321.5 Paying agent fees and charges.

(a) *Scale or rate and procedures.* Each paying agent shall receive reimbursement at the rate of 30 cents for each bond or note paid hereunder which is received by a Federal Reserve Bank and forwarded for the agent's account to the Department of the Treasury during each calendar quarter.

(b) *No charge to owners.* Paying agents shall not make any charge whatever to owners of savings bonds and savings notes in connection with payments hereunder.

(c) The provisions of this section, as amended, are effective as of July 6, 1978.

5. 31 CFR Chapter II is revised to add a new Part 226 to read as follows:

INTERIM RULE

PART 226—RECOGNITION OF INSURANCE COVERING TREASURY TAX AND LOAN DEPOSITARIES

Sec.
226.1 Scope.
226.2 General.
226.3 Application—termination.
226.4 Adequacy of security—how computed.
226.5 Examinations.
226.6 Financial reports.
226.7 Effective date.

AUTHORITY: Secs. 2 and 3, Pub. L. 95-147. 91 Stat. 1227 (31 U.S.C. 1038).

§ 226.1 Scope.

The regulations in this part apply to insurance covering public money of the United States held by banks, savings banks, savings and loan associations, building and loan associations, homestead associations, or credit unions designated as Treasury tax and loan depositaries under 31 CFR Part 203. Approval of the adequacy of the insurance coverage provided to Treasury tax and loan funds shall be governed by the regulations contained herein, which will be supplemented by guidelines issued by the Treasury and updated from time to time to meet changing conditions in the industry.

§ 226.2 General.

(a) Deposit or account insurance provided by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, and the National Credit Union Share Insurance Fund, is hereby recognized. Deposits or accounts which are insured by a State or agency thereof, or by a corporation chartered by a State for the sole purpose of insuring deposits or accounts of financial institutions eligible to be Treasury tax and loan depositaries (hereinafter referred to as Insurance Arrangement), shall be approved as provided herein. Such approval constitutes recognition for the purpose of reducing the amount of collateral required of a tax and loan de-

[1] Department of the Treasury Circulars No. 530, current revision (31 CFR Part 315), and No. 653, current revision (31 CFR Part 316).

positary by the amount of recognized insurance coverage pursuant to 31 CFR 203.15.

(b) Generally, these regulations and their associated guidelines require that an organization providing insurance maintain a corpus of sufficient value and liquidity, and/or that it have sufficient State borrowing authority, in relation to its liabilities and total insured savings (or deposits) to provide adequate security to the Government's deposits and that adequate monitoring of the financial condition of the insured institutions is conducted.

§ 226.3 Application—termination.

(a) Every Insurance Organization applying for recognition as a qualified insurer of financial institutions designated as Treasury tax and loan depositaries shall address a written request to the Assistant Comptroller for Auditing, Bureau of Government Financial Operations, Department of the Treasury, Washington, D.C. 20226, who will notify the applicant of the data which is necessary to make application. If the Secretary of the Treasury is satisfied that (1) one or more institutions insured by the applicant otherwise meet the Secretary's requirements for designation as a Treasury tax and loan depositary or Federal tax depositary, (2) the insurance provided by the applicant covers public money of the United States, and (3) the insurance coverage provided affords adequate security to the Government's deposits, the Secretary shall recognize the applicant as a qualified insurer of financial institutions designated as Treasury tax and loan depositaries.

(b) If and when the Secretary of the Treasury determines that a qualified insurance organization's financial condition is such that it no longer provides adequate security or that it is not complying with the regulations of this part, the Secretary will notify the Insurance Organization of the facts or conduct which cause him to make such determination, and in those cases where the safety of the Government's funds allows, provide the Insurance Organization with an opportunity to correct the deficiency. When any deficiency has not been corrected to his satisfaction or, where the safety of Government funds makes immediate revocation imperative, the Secretary will revoke the recognition previously granted.

§ 226.4 Adequacy of security—how computed.

(a) In qualifying Insurance Organizations, the Treasury will use a ratio (equity (net worth) of the insurance organization divided by insured accounts or deposits) to determine if the security is adequate. The ratio will be computed as determined by the Treasury, and is required to equal 0.0045 or greater for an Insurance Organization to be recognized (i.e., net worth is required to equal 0.45 of 1 percent of insured accounts or deposits).

(b) If, in the judgment of the Secretary of the Treasury, any of the Insurance Organization's assets which cannot be liquidated promptly or are subject to restriction, encumbrance, or discredit, all or part of the value of such assets may be deducted from equity in making the computation. The Secretary of the Treasury may value the assets and liabilities in his discretion.

(c) An Insurance Organization's unqualified borrowing authority from its sponsoring State will be added to its equity in making the computation because such authority is equivalent to additional capitalization. An Insurance Organization's commercial borrowing authority and its reinsurance will be disregarded in making the computation, because these are not adequate substitutes for undercapitalization.

§ 226.5 Examinations.

(a) Examinations by State regulatory authorities or audits by CPA firms of Insurance Organizations shall be performed in accordance with, and at intervals prescribed by, State regulatory procedures. Copies of the reports shall be submitted to the Treasury.

(b) Examinations by State regulatory authorities or audits by CPA firms of insured financial institutions shall be performed in accordance with, and at intervals prescribed by, State regulatory procedures. In addition, an adequate monitoring system shall be employed to detect those institutions with financial problems.

§ 226.6 Financial reports.

Financial reports of Insurance Organizations shall be submitted to the Treasury at the same intervals they are submitted to State regulatory authorities. However, they need not be submitted more frequently than quarterly but, as a minimum, shall be submitted annually. The Treasury may prescribe the format of such reports.

§ 226.7 Effective date.

The provisions of this part become effective as of July 6, 1978.

* * * * *

The foregoing revisions and/or amendments are effective as of July 6, 1978.

Dated: April 27, 1978.

PAUL H. TAYLOR,
Acting Fiscal Assistant Secretary.

[FR Doc. 78-11814 Filed 5-1-78; 8:45 am]

FA–1038 A2 (5-78) NCR

MAXIMUM BALANCE LIMITATION
OPEN-ENDED NOTE OPTION
TREASURY TAX AND LOAN ACCOUNT

To: Fiscal Agency Dept.
Federal Reserve Bank
Station K
Dallas, Texas 75222

_____
DATE

In accordance with 31 CFR Part 203.9(f) (43 Federal Register 18960 dated May 2, 1978), all depositaries selecting the Note Option may establish a maximum balance for its Note Account by providing notice in writing to the Federal Reserve Bank. Indicated below is the ceiling to be established for this institution.

☐ All deposits in excess of collateral pledged shall be withdrawn without prior notice.

☐ All deposits in excess of $_____ shall be withdrawn without prior notice.

_____
NAME OF DEPOSITARY

_____
LOCATION

_____
SIGNATURE & TITLE OF OFFICER

FRB USE ONLY

_____
EFFECTIVE DATE

DISTRIBUTION: *WHITE - Federal Reserve Bank's Copy* *CANARY - Depositary Bank's Copy*