

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-106
August 10, 1978

TREASURY TAX AND LOAN INVESTMENT PROGRAM

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

The Treasury Department has notified us that implementation of the Treasury Tax and Loan Investment Program will probably begin on Thursday, September 7. Enclosed for your information are Start-Up Procedures concerning the program. Also, listed below are several questions and their answers which were posed at various meetings in May of this year. Should you need further elaboration on any of the subjects mentioned, please call:

| | | |
|--------------------|--|-------------------|
| Dallas Office | Jack A. Clymer or Trudy Lanphier | Ext. 6340 or 6341 |
| El Paso Branch | Jerry Silvey or Joel L. Koonce | (915) 544-4730 |
| Houston Branch | James Lockhart, Onezia Donaldson, or Sammie C. Clay | (713) 659-4433 |
| San Antonio Branch | Tony Valencia or Thomas C. Cole | (512) 224-2141 |

1. Question: How will the liquidity ratio be calculated by those banks electing the Note Option?

Answer: It is the opinion of this Bank and others who have been consulted that these funds will be included in the formula as they are now under the present program. Since these funds are originally deposits, you would not consider them as a loan in developing your bank's liquidity.

2. Question: Is the Fed Funds Rate based on a weekly or a monthly average?

Answer: The Fed Funds Rate as published in the Federal Reserve Bulletin is an average weekly rate (Thursday through Wednesday). This rate less 25 basis points will be applied to the appropriate average weekly balance in the Treasury Tax and Loan Note accounts.

3. Question: Will the banks be able to use the Fed Funds Rate published in the *Wall Street Journal* to monitor the interest rate?

Answer: In order that the banks can monitor the rate, we have been informed that the *Wall Street Journal* publishes these rates on Friday of each week, under the caption "Federal Reserve Data." The rates listed daily under the caption "Financing Business," subcaption "Money Rates" is only a survey of New York banks and may or may not be an indication of the rate you will be charged.

4. Question: How will depositaries under the Note Option report these balances on their "Report of Condition"?

Answer: Member Banks - These balances should be accounted for in the total in Item 29, "Other Liabilities." Also, the Treasury Tax and Loan note balance will be detailed

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.

in Schedule H No. 8, "All Other." On December 31, 1978, a revised Report of Condition will be completed, and these balances will be reported under Item 26A, "Interest Bearing Demand Notes Issued to the Treasury."

Texas and New Mexico Nonmember Banks - They will report these items as they do under the present system since the State Commissioner of Banking in each of these states has ruled that the Note Account for nonmember banks will still be considered a demand account. Should you have any questions regarding this ruling, please call:

Texas -- Archie Clayton -- (512) 475-4451
New Mexico -- Edward St. Peter -- (505) 827-2217

Oklahoma and Louisiana Nonmember Banks - They will report these balances as if they were loans from the Treasury. If you have any questions, please call:

Oklahoma -- Donald VanHorn -- (405) 521-2782
Louisiana -- Jimmy Whittington -- (504) 925-4660

5. Question: Does a nonmember bank still have reserve requirements on the Note Account?

Answer: Texas and New Mexico - YES. The State Commissioner of Banking has ruled that these deposits are demand accounts and reserves are required. Should you have any questions, please call the number listed above for your state.

Oklahoma and Louisiana - NO. The funds are considered loans from the Treasury and no reserves are required. Should you have any questions, please call the number listed above for your state.

6. Question: Why doesn't the FDIC consider the Note Account a time or demand deposit and allow coverage regarding collateral?

Answer: The FDIC considers these deposits to be borrowed funds after 24 hours and, therefore, no coverage is allowed. Should you have questions regarding this ruling, please call Charles Pickett, Regional Counsel-FDIC, at (214) 749-7691.

7. Question: Will the Board of Governors of the Federal Reserve System eliminate reserve requirements on the Note Account for member banks?

Answer: Amendments to Regulations D and Q were distributed June 7, 1978. They provided that balances in the Note Accounts will not be regarded as deposits subject to reserve requirements (Regulation D) or subject to interest rate limitation (Regulation Q). It should be noted that funds deposited in TT&L accounts retain their status as demand deposits until they are invested in the note obligations of the depository bank or remitted to the Treasury.

8. Question: How will member banks who report weekly on the "Report of Condition" indicate note balances?

Answer: This total will be indicated in Item No. 11, "Other Liabilities."

9. Question: Will state warrants be acceptable payment of taxes collected from the various state offices?

Answer: YES, they are acceptable, but a depository accepts them at their own choosing since they are not required to accept any check not drawn on themselves.

10. Question: What are the ramifications of a bank accepting a check not drawn on itself in payment of Federal taxes?

Answer: Banks should be aware that whenever this type of payment is accepted, they will incur the float and will also begin paying interest on these funds, should they elect the Note Option. Under the Remittance Option, the funds could probably be withdrawn from the Treasury Tax and Loan account before the check has been collected.

11. Question: In reference to reimbursement for Federal tax deposit transactions, will the monthly statements mailed on the 20th of the following month reflect the number of cards handled and the total income for the cycle?

Answer: YES.

12. Question: Is next day delivery of advices mandatory for Remittance Option banks?

Answer: YES. Remittance Option 1 -- The delivery requirement is very stringent for this class of banks since continual late deposits will force the bank into the Note Option.

NO. Remittance Option 2 -- The delivery requirement in this class is less strict. Late fees on delayed deposits will be used to net out Federal tax deposit fees due to the depository. The bank will not be forced into the Note Option if they are continually late.

If a bank feels that it can meet the delivery requirement by sending their advices of credit to another office in the Eleventh District, we encourage you to do so. A letter notifying us of your preference to send to another office will be sufficient notification.

It should be noted here that only the original copy of Form 2284, "Advice of Credit-Federal Taxes," should be sent to the Federal Reserve. The second copy should be sent to the Internal Revenue Service with the taxpayer's Federal tax cards attached. Many banks reverse this process or attach the taxpayer's cards to the original advice. We ask that you review this operation with your personnel for compliance since such errors cause unnecessary paperwork and delays in processing.

13. Question: Will custodian receipts be mandatory for all nonmember banks pledging collateral to Treasury Tax and Loan?

Answer: Due to the possibility of the Federal Reserve Bank of Dallas and its Branches being limited on space for definitive collateral pledged to Treasury Tax and Loan, it may be necessary for nonmember institutions to submit custodian receipts. Listed below are those custodian banks qualified for such transactions in the Eleventh District.

Albuquerque National Bank
The First National Bank in Albuquerque

Albuquerque, New Mexico
Albuquerque, New Mexico

| | |
|--|------------------------|
| Guaranty Bank and Trust Company | Alexandria, Louisiana |
| The American National Bank of Amarillo | Amarillo, Texas |
| The First National Bank of Amarillo | Amarillo, Texas |
| The American National Bank of Austin | Austin, Texas |
| | |
| The Austin National Bank | Austin, Texas |
| The Capital National Bank in Austin | Austin, Texas |
| City National Bank | Austin, Texas |
| American Bank and Trust Company | Baton Rouge, Louisiana |
| Louisiana National Bank | Baton Rouge, Louisiana |
| First Security National Bank | Beaumont, Texas |
| | |
| Continental Illinois National Bank and Trust Company of Chicago | Chicago, Illinois |
| The First National Bank of Chicago | Chicago, Illinois |
| Northern Trust Company | Chicago, Illinois |
| Corpus Christi Bank & Trust | Corpus Christi, Texas |
| Corpus Christi National Bank | Corpus Christi, Texas |
| | |
| Citizens National Bank of Dallas | Dallas, Texas |
| Texas American Bank-Dallas North | Dallas, Texas |
| First National Bank in Dallas | Dallas, Texas |
| Mercantile National Bank at Dallas | Dallas, Texas |
| National Bank of Commerce of Dallas | Dallas, Texas |
| | |
| Republic National Bank of Dallas | Dallas, Texas |
| Texas Bank & Trust Company of Dallas | Dallas, Texas |
| United National Bank | Dallas, Texas |
| The El Paso National Bank | El Paso, Texas |
| Continental National Bank of Fort Worth | Fort Worth, Texas |
| | |
| First National Bank of Fort Worth | Fort Worth, Texas |
| Fort Worth Bank and Trust Company | Fort Worth, Texas |
| Fort Worth National Bank | Fort Worth, Texas |
| Allied Bank of Texas | Houston, Texas |
| Bank of the Southwest, National Association | Houston, Texas |
| | |
| Capital National Bank | Houston, Texas |
| Fannin Bank | Houston, Texas |
| First City National Bank of Houston | Houston, Texas |
| First International Bank of Houston | Houston, Texas |
| Houston National Bank | Houston, Texas |
| | |
| Southern National Bank of Houston | Houston, Texas |
| Texas Commerce Bank, National Association | Houston, Texas |
| Deposit Guaranty National Bank | Jackson, Mississippi |
| Commerce Bank of Kansas City, Missouri National Association | Kansas City, Missouri |
| The First National Bank of Kansas City | Kansas City, Missouri |
| First National Bank at Lubbock | Lubbock, Texas |
| First National Bank of Memphis | Memphis, Tennessee |

National Bank of Commerce
First National Bank of Midland
Central Bank
Ouachita National Bank
First National Bank of Commerce

Memphis, Tennessee
Midland, Texas
Monroe, Louisiana
Monroe, Louisiana
New Orleans, Louisiana

The Hibernia National Bank in New Orleans
Whitney National Bank
The Bank of New York
Bankers Trust Company
The Chase Manhattan Bank, National Association

New Orleans, Louisiana
New Orleans, Louisiana
New York, New York
New York, New York
New York, New York

Chemical Bank
First National City Bank
Irving Trust Company
Manufacturers Hanover Trust Company
Morgan Guaranty Trust Company of New York

New York, New York
New York, New York
New York, New York
New York, New York
New York, New York

Fidelity Bank, National Association
First National Bank and Trust Company
of Oklahoma City
The Liberty National Bank and Trust Company
of Oklahoma City
First National Bank of Arizona
Valley National Bank

Oklahoma City, Oklahoma
Oklahoma City, Oklahoma

Oklahoma City, Oklahoma

Phoenix, Arizona
Phoenix, Arizona

The Central National Bank of San Angelo
San Angelo National Bank
The Alamo National Bank of San Antonio
Bexar County National Bank of San Antonio
First National Bank of San Antonio

San Angelo, Texas
San Angelo, Texas
San Antonio, Texas
San Antonio, Texas
San Antonio, Texas

Frost National Bank
The Groos National Bank of San Antonio
National Bank of Commerce of San Antonio
Wells Fargo Bank, National Association
First National Bank in St. Louis

San Antonio, Texas
San Antonio, Texas
San Antonio, Texas
San Francisco, California
St. Louis, Missouri

Commercial National Bank in Shreveport
The First National Bank of Shreveport
Tyler Bank and Trust Company
The First National Bank and Trust Company
of Tulsa
Victoria Bank and Trust Company

Shreveport, Louisiana
Shreveport, Louisiana
Tyler, Texas
Tulsa, Oklahoma

Victoria, Texas

The American Bank of Waco
The Citizens National Bank of Waco
The First National Bank of Waco
First National Bank in Wichita
City National Bank in Wichita Falls

Waco, Texas
Waco, Texas
Waco, Texas
Wichita, Kansas
Wichita Falls, Texas

The First-Wichita National Bank of Wichita Falls

Wichita Falls, Texas

Additional copies of this circular may be obtained from the Fiscal Agency Department at the Dallas office.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

START-UP PROCEDURES

These procedures are organized into three sections - I. Principles II. Examples and III. Chronology. The procedures assume a September 7 effective date for illustrative purposes. The dates specified should be modified to correspond to the dates of the reporting cycle in which the program is implemented.

I. PRINCIPLES

1. Handling existing balances and transmittal processing -

A. Note Option depositaries - Balances in the Treasury tax and loan account as of opening of business on September 7 will be converted into the opening note account balance on September 7. Advices dated prior to September 7 but received and processed September 7 or later will be added to the note balance on the day processed. Advices dated on or after September 7 will be included in the closing note account balance on the business day after the advice of credit date.

B. Remittance Option depositaries - Balances in the TT&L account as of opening of business on September 7 will be withdrawn on September 7. Advices of credit dated prior to September 7 and processed at the Reserve Bank on or after the September 7 effective date will be withdrawn from the TT&L account on the date processed and will not be subject to late fees or analysis credits. Advices dated on or after September 7 will be withdrawn from the TT&L account on the date processed and will be subject to late fees or analysis credits if applicable.

2. Collateral -

A. Sufficiency - (1) Note Option depositaries should be advised by the Federal Reserve Bank that sufficient collateral security must be pledged on September 7 to cover both the balances in the note account and the closing balances in the TT&L account. Federal Deposit Insurance Corporation coverage may be used to reduce the collateral pledge for balances in the Treasury tax and loan account. FDIC coverage does not apply to balances in the note account.

(2) Remittance Option depositaries should be advised by the Federal Reserve Bank that on September 7 the depositaries' closing balance in the TT&L account, less FDIC insurance coverage, should be fully collateralized.

B. Policing - Treasury will in the future issue instructions to the Reserve Banks finalizing specifications for an end-of-reporting-cycle comparison between balances each day during the cycle on the books of the depository and the actual collateral pledged each day. After such specifications are finalized, Reserve Banks will have at least thirty days lead time until this procedure is to be implemented.

During the interim period, Reserve Banks will continue to use the current procedure for collateral policing. This procedure consists of a daily comparison of balances as reported on the books of the Reserve Bank versus collateral pledged. For a Note Option depositary, the Reserve Bank will compare the balance in the note account each day to the amount of collateral pledged. For a Remittance Option depositary, the Reserve Bank will compare the total credits to the TT&L account each day less deposit insurance coverage, if applicable, to the amount of collateral pledged. Deficiencies will be resolved under current FRB procedures. This daily procedure is currently in effect and shall continue in effect without interruption during implementation of the investment program.

3. Handling savings and loan association, credit union and savings bank applications -

The Treasury is coordinating finalizing drafts of the agreement forms, for use by financial institutions seeking designation under the revised 31 CFR Parts 203 and 214, with the Federal Reserve Banks. Upon receipt of the finalized agreement forms from Treasury the Reserve Banks should provide general information, including copies of the revised regulations and the Procedural Instructions for Treasury Tax and Loan Depositaries, and the agreement forms, to requesting S&Ls, credit unions and savings banks. Completed agreement forms received should be logged or time-stamped and processed on a first-in, first-out basis. As workload conditions permit, the Reserve Banks should process requests for designation as follows:

A. Federally-chartered S&Ls and Credit Unions

To date, the Federal regulatory agencies for savings and loan associations and credit unions have not finalized their regulations to conform with Treasury's requirements for depositaries. Until such regulations are finalized, Federally-chartered financial institutions governed by the Federal Home Loan Bank Board and the National Credit Union Administration may not be designated. Treasury will advise the Reserve Bank when the required revisions to the regulations are complete.

B. State-chartered S&Ls, Credit Unions and Savings Banks

No general statement can be made for State-chartered savings and loan associations, credit union and savings banks concerning eligibility under the tax and loan investment program. The revised agreement forms require the applying financial institution to certify that:

- (a) It possesses under its charter and regulations issued by its chartering authority either general or specific authority permitting the maintenance of the note account (if applicable) and the tax and loan account as accounts, the balances in which are payable on demand without previous notice of intended withdrawal.
- (b) it possesses under its charter and regulations issued by its chartering authority either general or specific authority permitting the pledging of collateral to secure funds in a note account (if applicable) and the tax and loan account, and
- (c) it is otherwise eligible under 31 CFR 203.3(b) (1) (i).

To supplement the certifications of such institutions, the Reserve Bank of the District shall request from the appropriate state chartering authority, an opinion concerning the capabilities of the financial institutions under the laws of the states and their governing charters and regulations to meet (a), (b) and (c) above. The opinion can provide blanket approval for the specific class of financial institutions within that state and should be requested as such. For example the opinion should specify if all S&Ls chartered under state statutes have the capabilities to meet (a), (b) and (c) above. Such an opinion is necessary before the designation of the financial institutions as Treasury tax and loan depositaries.

When the territorial boundaries of a state are divided among two or more Reserve Banks, the request for an opinion from the state shall be coordinated by the Reserve Banks to ensure only one request is submitted to the state.

When an affirmative opinion is received from the state, the Reserve Bank will accept such opinion as evidence that the financial institutions in question have the capabilities specified in (a), (b) and (c) above. However, if the opinion received relies on Federal law (P.L. 95-147) to supercede state law as evidence that the financial institutions in question have the capabilities specified in (a), (b) and (c) above, designation of the class of institutions covered by such an opinion should be withheld and the opinion forwarded to the Treasury (Office of the Fiscal Assistant Secretary) for further review.

4. Adjustments -

- A. Opening balances - Adjustments to opening balances in the TT&L account on the effective date which are made after the effective date will use the effective date as the beginning point for any interest adjustments due.

B. Transmittal processing - The date processed at the Reserve Bank provides the benchmark for adjustments to advices of credit dated prior to but received on or after the effective date. For Note Option depositaries, interest related to advices of credit dated prior to but received on or after the effective date, will accrue from the date such advices are processed by the Reserve Bank. The date processed will be used as the beginning point for computing interest adjustments. For Remittance Option depositaries the advice of credit balances will be withdrawn from the TT&L account on the date processed. The date processed will be used as the beginning point for any interest adjustments required. Remittance Option depositaries will not be subject to late fees or analysis credits for advices of credit dated prior to the effective date.

5. Non-TT&L depositaries -

Under existing regulations, a depositary may be designated a Depositary for Federal Taxes without being designated a Treasury Tax and Loan Depositary. As of September 7, a depositary must hold both designations to handle FTDs. A financial institution can be a Treasury Tax and Loan Depositary without being a Depositary for Federal Taxes.

The Reserve Bank should take action to advise each existing depositary designated as a Depositary for Federal Taxes but not as a Treasury Tax and Loan Depositary of the requirements under the regulations effective September 7.

6. Start-up procedures for depositaries -

Each Reserve Bank should provide start-up procedures to existing depositaries by August 7. To accomplish this, the Reserve Bank should draft procedures to incorporate items 1 and 2A of these principles plus any additional operating procedures with respect to start-up established by the Reserve Bank.

II. EXAMPLES

The examples that follow are provided to clarify several principles set forth in Section I.

1. Handling existing balances and transmittal processing -

- Facts:
- (a) The TT&L balance opening of business September 7 is \$ 100,000.
 - (b) An advise of credit dated September 3 is for \$ 10,000 and received at the FRB on September 10.
 - (c) An advice of credit dated September 7 is for \$ 20,000 and received at the FRB on September 10.

A. Note Option -

- (1) On September 7, the opening balance of \$ 100,000 is withdrawn from the TT&L account and automatically added to the note account.
- (2) On September 10, the advice dated September 3 is received and processed at the Reserve Bank. The \$ 10,000 is added to the closing balance of the note account for September 10.
- (3) On September 10, the advice dated September 7 is received at the Reserve Bank. The \$ 20,000 will be added to the closing balance of the note account for September 8.

B. Remittance Option (assume Class 1 for illustration purposes) -

- (1) On September 7, the opening balance of \$ 100,000 is withdrawn from the TT&L account and added to Treasury's account.
- (2) On September 10, the advice dated September 3 is received and processed at the Reserve Bank. The \$ 10,000 is withdrawn from the TT&L account and added to Treasury's account at the FRB on September 10. The depository is not subject to a late fee.
- (3) On September 10, the advice dated September 7 is received at the Reserve Bank prior to the cutoff and processed. The \$ 20,000 is withdrawn from the TT&L account and added to Treasury's account at the FRB on September 10. The depository is subject to a late fee for 2 days, representing September 8, and 9, during which the advice was late.

2. Adjustments -

- Facts:
- (a) The balance of \$ 100,000 opening of business September 7 includes an advice of credit for \$ 50,000 dated August 29.
 - (b) An advice of credit dated August 30 is for \$ 10,000 and is received at the FRB on September 10.

A. Opening Balances -

On September 7, the opening balance of \$ 100,000 is withdrawn from the TT&L account and placed into the note account. On September 13, the advice dated August 29 for \$ 50,000 is identified as overstated. The correct amount should have been \$ 5,000. The adjusting transaction will return the principal amount of \$ 45,000 (in accordance with the principles of the adjustment package, released May 1, 1978) and reduce the closing note balance for interest computation purposes for the period September 7, but not including September 13.

If the depository was participating under the Remittance Option, the adjusting transaction would return the \$ 45,000 principal (in accordance with the principles of the adjustment package, released May 1, 1978) and compensation for the period September 7 to, but not including September 13.

B. Transmittal processing -

The advice of credit dated August 30 is received and processed on September 10. Under either option, the depository is not subject to interest for any portion of the period August 30 to, but not including, September 10.

On September 21, the advice of August 30 for \$ 10,000 is identified as overstated. The correct amount should be \$ 5,000. The adjusting transaction under the Note Option will return the principal amount of \$ 5,000 (in accordance with the principles of the adjustment package, released May 1, 1978) and reduce the closing note balances for interest computation purposes for the period September 10 to, but not including September 21.

If the depository was participating under the Remittance Option, the adjusting transaction would return the principal amount of \$ 5,000 (in accordance with the principles of the adjustment package, released on May 1, 1978) and compensation for the period September 10 to, but not including, September 21.

III. CHRONOLOGY

Specific procedures on the operations mentioned in this chronology are provided in the FRB manual for continuing operations and Section I of this paper for start-up principles.

To determine the appropriate date, the rule stated should be applied to the effective date.

| <u>Rule</u> | <u>Action</u> |
|-----------------------------------|--|
| Effective date | a. Withdraw all prior balances for Remittance Option depositaries b. Automatically convert all prior balances for Note Option depositaries to note account balances |
| Business day after effective date | a. Collateral policing under investment procedures continues (same under previous system). |

- b. Begin reporting TT&L investment program data on the daily balance wire. The balance wire for the effective date due at Treasury by 8:30 a.m. Eastern Time

12th of month following the reporting cycle 1/ FTD payment tape received by this date.

13th of month following the reporting cycle 2/ If FTD payment tape not received by 12:00 noon, contact the service center to locate it.

15th of the month following the reporting cycle 2/ Interest rates provided to Reserve Banks

- 20th of month following the reporting cycle 1/
- a. FTD apyment tape run
 - b. Statement for first reporting cycle prepared and sent to depositaries
 - c. Administrative wire on amount of fee payments to depositaries sent to BGFO

- 25th of month following the reporting cycle 2/
- a. Accomplish payments to Treasury and to the depositaries through the Reserve Account mechanism
 - b. Funds transfer message transmitted through the FRCS to Treasury concerning interest and late fees.
 - c. SF 5515, Debit Voucher, completed and submitted to Treasury to support the payment of fees to depositaries

Business day after payments accomplished Return payment tape to service center.

1/ Prior business day if the specified day is a non-business day.

2/ Subsequent business day if the specified day is a non-business day.