

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-208

November 4, 1980

REGULATION D INTERPRETATION
DEFINING "BANKERS' BANKS" AND SETTING FORTH
THE CRITERIA UNDER WHICH BANKERS' BANKS
MAY ACT AS PASS-THROUGH AGENTS FOR
RESERVES OF OTHER INSTITUTIONS

TO THE CHIEF EXECUTIVE OFFICER
OF ALL FINANCIAL INSTITUTIONS IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

Printed on the following pages is the text of a press release issued on October 15, 1980 by the Board of Governors of the Federal Reserve System announcing an interpretation of its Regulation D, "Reserve Requirements of Depository Institutions" defining "bankers' banks" and setting forth the criteria under which bankers' banks may act as pass-through agents for the reserves of other institutions. The Federal Register document, also printed on the following pages, details the text of the Board's interpretation.

An interpretation will be provided in the near future for insertion in the regulations binder furnished by this Bank. In the interim, you should refer to the enclosed Federal Register document for the full text of the interpretation.

Questions regarding this revision should be directed to Allan Neale at the Head Office, Ext. 6334, or the manager of the Accounting Department at our El Paso, Houston, or San Antonio Branches.

Sincerely yours,

Robert H. Boykin

First Vice President

Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE press release



For immediate release

October 15, 1980

The Federal Reserve Board today issued an interpretation of its Regulation D -- reserve requirements of depository institutions -- defining "bankers' banks" and setting forth the criteria under which bankers' banks may act as pass-through agents for the reserves of other institutions.

The Monetary Control Act of 1980 specifies that bankers banks are exempt from Federal reserve requirements. In its interpretation the Board ruled that an institution is a bankers' bank if it satisfies all the following criteria:

--It is organized solely to do business with other financial institutions. This requirement may be met even though the institution does a limited amount of business with customers other than financial institutions.

Those to whom it may lend or from whom it may receive deposits are specified in the interpretation.

--It is owned primarily (75 percent or more) by the financial institutions with which it does business.

--It does not do business with the general public except for customers specified in the interpretation. Loans to others than financial institutions may not exceed 10 percent of its total assets and the deposits it receives from others than financial institutions may not exceed 10 percent of its total liabilities.

A bankers' bank may act as a pass-through agent for the reserves of other institutions under the following conditions:

--If the bankers' bank enters into an agreement with the Federal Reserve to accept responsibility for correctly maintaining passed-through reserves.

--The Federal Reserve is satisfied with the quality of the management and financial resources of the bankers' bank.

The Board said that to determine the quality of the management and financial resources of a bankers' bank it will consult with the appropriate Federal supervisor. Since the Board does not intend to involve itself in the direct supervision of other than commercial banks, it will look to the National Credit Union Administration and the Federal Home Loan Bank to review requests from credit unions or savings and loan associations that wish to qualify as bankers' banks. Federal Reserve approval will depend upon a finding by the appropriate Federal supervisor that management and financial resources are adequate.

The Board's interpretation is attached.

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TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Regulation D]

(Docket No. R-0328)

Part 204--RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Interpretation.

SUMMARY: Under the Monetary Control Act of 1980, "bankers' banks" are exempt from Federal reserve requirements. The Board has determined that a depository institution will be regarded as a bankers' bank if it meets certain criteria with regard to its ownership and the extent to which it does business with entities other than depository institutions. The Board has also adopted criteria that will be applied in determining whether to grant requests from bankers' banks to act as a correspondent for the pass-through of required reserves of other depository institutions.

DATE: Effective November 13, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Lee S. Adams, Senior Attorney (202/452-3623), Paul S. Pilecki, Attorney (202/452-3281), or Myron L. Kwast, Economist (202/452-2686), or Paul P. Burik, Economist (202/452-2556), Board of Governors of the Federal Reserve System, Washington, D. C. 20551.

SUPPLEMENTARY INFORMATION: Under section 19 of the Federal Reserve Act ("Act"), as amended by the Monetary Control Act of 1980 (Title I of P. L. 96-221), the Board has adopted the following interpretation, effective November 13, 1980, with regard to the characteristics a depository institution must possess in order to qualify for the "bankers' bank" exemption from reserve requirements contained in § 19(b)(9) of the Act. The Board also established criteria to be applied to determine whether a specific bankers' bank is qualified to act as a pass-through correspondent for nonmember depository institutions that are subject to the Act.

Effective November 13, 1980, pursuant to the Board's authority under section 19 of the Federal Reserve Act (12 U.S.C. §§ 461 et seq.), Regulation D (12 CFR Part 204) is amended by adding a new section 204.121 as follows:

§ 204.121 Bankers' Banks

(a)(1) The Federal Reserve Act, as amended by the Monetary Control Act of 1980 (Title I of P. L. 96-221), imposes Federal reserve requirements on depository institutions that maintain transaction accounts or nonpersonal time deposits. Under § 19(b)(9), however, a depository institution is not required to maintain reserves if it:

(A) is organized solely to do business with other financial institutions;

(B) is owned primarily by the financial institutions with which it does business; and

(C) does not do business with the general public.

Depository institutions that satisfy all of these requirements are regarded as "bankers' banks."

(2) In its application of these requirements to specific institutions, the Board will use the following standards:

(A) A depository institution may be regarded as organized solely to do business with other depository institutions even if, as an incidental part to its activities, it does business to a limited extent with entities other than depository institutions. The extent to which the institution may do business with other entities and continue to be regarded as a bankers' bank is specified in (C) below.

(B) A depository institution will be regarded as being owned primarily by the institutions with which it does business if 75 per cent or more of its capital is owned by other depository institutions. The 75 per cent or more ownership rule applies regardless of the type of depository institution.

(C) A depository institution will not be regarded as doing business with the general public if it meets two conditions. First, the range of customers with which the institution does business must be limited to depository institutions, including subsidiaries or organizations owned by depository institutions; directors, officers or employees of the same or other depository institutions; individuals whose accounts are acquired at the request of the institution's supervisory authority due to the actual or impending failure of another depository institution; share insurance funds; and depository institution trade associations. Second, the extent to which the depository institution makes loans to, or investments in, the above entities (other than depository institutions) cannot exceed 10 per cent of total assets, and the extent to which it receives deposits (or shares

if the institution does not receive deposits) from or issues other liabilities to the above entities (other than depository institutions) cannot exceed 10 per cent of total liabilities (or net worth if the institution does not receive deposits).

If a depository institution is unable to meet all of these requirements on a continuing basis, it will not be regarded as a bankers' bank and will be required to satisfy Federal reserve requirements on all of its transaction accounts and nonpersonal time deposits.

(b) (1) Section 19(c) (1) of the Federal Reserve Act, as amended by the Monetary Control Act of 1980 (Title I of P. L. 96-221) provides that Federal reserve requirements may be satisfied by the maintenance of vault cash or balances in a Federal Reserve Bank. Depository institutions that are not members of the Federal Reserve System may also satisfy reserve requirements by maintaining a balance in another depository institution that maintains required reserve balances at a Federal Reserve Bank, in a Federal Home Loan Bank, or in the National Credit Union Administration Central Liquidity Facility if the balances maintained by such institutions are subsequently passed through to the Federal Reserve Bank.

(2) On August 27, 1980, the Board announced the procedures that will apply to such pass-through arrangements (45 Fed. Reg. 58099). Section 204.3(i) (1) provides that the Board may permit, on a case-by-case basis, depository institutions that are not themselves required to maintain reserves ("bankers' banks") to act as pass-through correspondents if certain criteria are satisfied. The Board has determined that a bankers' bank may act as a pass-through correspondent if it enters into an agreement with the Federal Reserve to accept responsibility for the maintenance of pass-through reserve accounts in accordance with Regulation D (12 CFR 204.3(i)) and if the Federal Reserve is satisfied that the quality of management and financial resources of the institution are adequate in order to enable the institution to serve as a pass-through correspondent in accordance with Regulation D. Satisfaction of these criteria will assure that pass-through arrangements are maintained properly without additional financial risk to the Federal Reserve.

(3) In order to determine uniformly the adequacy of managerial and financial resources, the Board will consult with the Federal supervisor for the type of institution under consideration. Because the Board does not possess direct experience with supervising depository institutions other than commercial banks, and does not intend to involve itself in the direct supervision of such institutions, it will request the National Credit Union Administration to review requests from credit unions that qualify as bankers' banks and the Federal Home Loan Bank Board to review requests from savings and loan associations that qualify as bankers' banks, regardless of charter or insurance status. (The Board, itself, will consider requests from all commercial banks that qualify as bankers'

banks.) If the Federal supervisor does not find the institution's managerial or financial resources to be adequate, the Board will not permit the institution to act as a pass-through correspondent. In order to assure the continued adequacy of managerial and financial resources, it is anticipated that the appropriate Federal supervisor will, on a periodic basis, review and evaluate the managerial and financial resources of the institution in order to determine whether it should continue to be permitted to act as a pass-through correspondent. It is anticipated that, with respect to state chartered institutions, the Federal supervisor may discuss the request with the institution's State supervisor. The Board believes that this procedure will promote uniformity of treatment for all types of bankers' banks, and provide consistent advice concerning managerial ability and financial strength from supervisory authorities that are in a better position to evaluate these criteria for depository institutions that are not commercial banks.

(4) Requests for a determination as to whether a depository institution will be regarded as a bankers' bank for purposes of the Federal Reserve Act or for permission to act as a pass-through correspondent may be addressed to the Federal Reserve Bank in whose District the main office of the depository institution is located or to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551. The Board will act promptly on all requests received directly or through Federal Reserve Banks.

By order of the Board of Governors of the Federal Reserve System, October 14, 1980.

(Signed) Theodore E. Allison

Theodore E. Allison
Secretary of the Board

[SEAL]