

TRANSFER

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FEDERAL RESERVE BANK OF ST. LOUIS

ST. LOUIS 2, MO.

October 18, 1949.

*To All Member Banks in the  
Eighth Federal Reserve District:*

The Board of Governors of the Federal Reserve System has been reviewing its rules under which the Federal Reserve Banks, in certain circumstances, are permitted to waive penalties for deficiencies in reserves of member banks. The Board of Governors has now authorized the Federal Reserve Banks, at their discretion, to waive a penalty on a deficiency in reserves in a given computation period which is offset by excess reserves in the immediately following period, and to permit member banks, when a reserve computation period ends on a non-business day, to include that day in the next reserve computation period.

Therefore, the Federal Reserve Bank of St. Louis and its branches have adopted the following rules, effective immediately:

Penalties may be assessed or not, in the discretion of the Federal Reserve Bank, in the following cases:

1. When a member bank is deficient in reserves during a reserve computation period, to the extent that the deficiency is offset by excess reserves during the immediately following reserve computation period, provided that such deficiency does not exceed two per cent of the member bank's required reserves.
2. When a member bank is deficient in reserves during a reserve computation period ending on a non-business day of a member bank, or of its Federal Reserve Bank, to the extent that the inclusion of that day in the next reserve computation period would reduce or eliminate the deficiency. (If the period in which the deficiency occurs ends with two or more non-business days, they may all be included in the next computation period.)

Your attention is directed to the fact that these rules have been adopted with the definite objective of reducing the number of occasions on which member banks might otherwise incur deficient reserve penalties, but that the law contemplates that member banks should make reasonable efforts to hold and maintain the prescribed reserve balances from day to day, making allowance for unforeseen fluctuations in deposits and reserves, even though penalties are assessed on daily average deficiencies over prescribed periods and there is no longer a statutory prohibition against the making of new loans and the payment of dividends while reserves are deficient.

CHESTER C. DAVIS,  
*President.*