

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1384]
May 10, 1934

Classification of Deposits as Savings Deposits
Under Regulation Q of Federal Reserve Board

*To all Member Banks in the
Second Federal Reserve District:*

With our circular No. 1275, dated September 1, 1933, we transmitted to you a copy of the Federal Reserve Board's Regulation Q, Series of 1933, which relates to the payment of deposits and interest thereon by member banks.

For your information and to assist you in classifying deposits which may constitute savings deposits we are transmitting herewith copy of a statement by the Federal Reserve Board in regard to the classification of deposits as savings deposits within the meaning of Regulation Q.

J. H. CASE,
Chairman.

CLASSIFICATION OF DEPOSITS AS SAVINGS DEPOSITS UNDER REGULATION Q.

There have been presented to the Federal Reserve Board numerous inquiries regarding the meaning of the word "thrift" as used in the definition of savings deposits which is contained in section V of the Federal Reserve Board's Regulation Q. As the Board has heretofore stated, it believes that the question whether deposits may be considered funds accumulated for bona fide thrift purposes so as to constitute savings deposits within the meaning of the regulation is one upon which no general rule can be prescribed and each case must necessarily be determined upon the basis of its particular facts. However, in view of the repeated requests for a statement as to the practical interpretation to be placed upon the phrase "funds accumulated for bona fide thrift purposes" as used in the regulation, and in order to be as helpful as may be possible to the member banks in this connection, the Federal Reserve Board desires to state herein some of the considerations which it feels may properly enter into a determination of the question whether deposits constitute savings deposits within the meaning of Regulation Q.

It will be observed that Regulation Q relates to three classes of deposits: deposits payable on demand, time deposits, and savings deposits. The payment of interest on deposits payable on demand, directly or indirectly by any device whatsoever, is prohibited. Interest may be paid in accordance with the regulation on time deposits, but no time deposit may be paid before its maturity. Interest may be paid in accordance with the regulation on savings deposits and savings deposits may, under certain conditions, be paid without requiring notice of withdrawal. The primary purpose of the requirement that savings deposits consist of funds accumulated for bona fide thrift purposes is to prevent the payment of interest on funds which should properly be classified as deposits payable on demand and the payment before maturity of funds which should properly be classified as time deposits. Accordingly, an important consideration in undertaking to determine what are funds accumulated for bona fide thrift purposes is to guard against the use of savings accounts as a means of evading the prohibition against the payment of interest on deposits payable on demand or of the prohibition upon the payment of a time deposit before its maturity, and, in any case in which a member bank is doubtful as to whether an evasion of either of these prohibitions is involved or as to whether funds may properly be classified as savings deposits, it should not classify the funds in such manner unless, after diligent inquiry into the nature of the deposit, it is satisfied in the light of the information developed that no evasion of either such prohibition is involved and that the classification of the funds as savings deposits is proper.

Generally speaking and without intending to exclude other classes of deposits, the Federal Reserve Board feels that deposits which consist of funds in relatively small amounts which are being or have been accumulated by persons of limited financial means may be considered presumptively by the banks to be funds accumulated for bona fide thrift purposes. Likewise it is believed that the same presumption should usually obtain with respect to funds which are being or have been accumulated in order to provide for old age or for contingencies which may not be foreseen, such as sickness or accident, and also with respect to funds which are being or have been accumulated in order to provide for anticipated expenditures such as, for example, the purchase of homes, furnishings, etc., and Christmas or vacation expenses, as well as for anticipated obligations falling due within a reasonable time, such as tax liabilities or insurance premiums.

It would seem that deposits of corporations in most cases probably would not consist of funds accumulated for bona fide thrift purposes; but here again no general rule can be laid down. Funds of a business enterprise which are temporarily idle such as surplus funds or funds commonly known as reserve funds would not ordinarily seem to constitute funds accumulated for bona fide thrift purposes. With respect to firms and individuals engaged in business, the nature of the business may be important in determining this question. Funds deposited by one bank in another would not, in the opinion of the Board, constitute funds accumulated for bona fide thrift purposes. In some instances the amount of the funds on deposit may be a factor for consideration in determining the propriety of their classification as savings deposits.

None of the considerations mentioned above is to be considered as conclusive of the question whether funds may be regarded as accumulated for bona fide thrift purposes or as savings deposits and, as indicated, each case must be determined in the light of its particular circumstances. The Federal Reserve Board feels that questions as to whether deposits may be regarded as funds accumulated for bona fide thrift purposes should be considered by the member banks in the exercise of their best judgment and in the light of the provisions of the law and the regulation. It would not be practicable for the Federal Reserve Board to undertake to determine such questions as they may arise in individual cases with member banks when deposits are offered to them. It is hoped, however, that the general statements above set forth may be indicative of the classes of deposits which in proper circumstances may constitute savings deposits and that they may be of assistance to the member banks in this connection.

As indicated in the regulation, if the circumstances with respect to the deposit are such as to raise a question as to whether it is properly classified as a savings deposit, the bank must be prepared to show clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes and that it otherwise complies with the definition of savings deposits set forth in the regulation.