

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 5434]
December 26, 1963]

**Deposits of Business Corporations Not Classifiable
As "Savings Deposits" Under Regulations Q and D**

To the Member Banks of the Second Federal Reserve District:

The following statement was made public today by the Board of Governors of the Federal Reserve System:

The Board of Governors has received inquiries regarding an interpretation issued by the Comptroller of the Currency under date of December 19, 1963, to the effect that "a national bank may . . . accept savings accounts without regard to whether the funds deposited are to the credit of one or more individuals or of a corporation, association, or other organization, whether operated for profit or otherwise."

As members of the Federal Reserve System, national banks are subject to the provisions of section 19 of the Federal Reserve Act which prohibit member banks from paying interest, directly or indirectly, on any demand deposit and which require the Board of Governors to limit the rate of interest that may be paid by such banks on time and savings deposits. To this end, it is necessary to define the terms "demand deposits" and "savings deposits"; and the law expressly authorizes the Board of Governors to define such terms and to prescribe regulations to effectuate the purposes of the statute and prevent evasions.

The Board's Regulation Q defines a "savings deposit" in a manner that permits such deposits to be made only by individuals or by corporations, associations, and other organizations which are not operated for profit but for religious, philanthropic, charitable, educational, fraternal, or similar purposes. This definition has been in effect since 1936.

Accordingly, a deposit by a corporation operated for profit may not be classified by any member bank, including a national bank, as a savings deposit. Unless such a deposit comes within the definition of a "time deposit" it would constitute a demand deposit under Regulation Q and payment of interest on such deposit by a national bank would violate the prohibition of the law against payment of interest on demand deposits.

Failure of a national bank to comply with provisions of the Federal Reserve Act constitutes grounds for instituting legal proceedings to close the bank. The law also provides that any director of a national bank participating in or assenting to a violation shall be personally liable for any damages that may be sustained by the bank, its shareholders, or any other persons in consequence of the violation.

In addition, Federal Reserve Regulation D, relating to reserves required to be maintained by member banks in the Federal Reserve System, contains a definition of savings deposits identical to that of Regulation Q. No deposit of a business corporation in a member bank may be classified as a savings deposit for reserve purposes and, unless it falls within the definition of a time deposit, a national bank must maintain against such a deposit the reserves applicable to demand deposits (16½ per cent for reserve city banks and 12 per cent for other member banks), rather than those applicable to time and savings deposits (4 per cent for all member banks). Classification of such a deposit as a savings deposit would violate Regulation D and subject the member bank to a penalty for any resulting reserve deficiency.

ALFRED HAYES,
President.