

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 5819 ]  
May 27, 1966

Interpretation of Regulation D by Board of Governors

*To the Member Banks of the Second  
Federal Reserve District:*

Printed below is a copy of an interpretation issued by the Board of Governors of the Federal Reserve System regarding reserves against funds received by member banks in connection with instalment loans. The interpretation is to be applied effective with reserve computation periods beginning June 9, 1966.

The interpretation will be published shortly in the *Federal Register* and *Federal Reserve Bulletin*, but it is being sent to you now so that you may have prompt notice of its content.

ALFRED HAYES,  
*President.*

Reserves Against Funds Received by Member Banks  
in Connection with Instalment Loans

The Board of Governors has been asked to re-examine its 1928 ruling that member banks must maintain reserves, in accordance with Federal Reserve Regulation D (12 CFR 204), against hypothecated "deposits" created by payments on instalment loans.

It appears that in some States the books of commercial banks show as "deposits" the funds that are paid by a borrower on an instalment loan, until the loan is paid in full. The amounts received are not immediately used to reduce the unpaid balance due on the note, but are held by the bank until the sum of the payments equals the entire amount of principal and interest. It is understood that under the terms of the agreement between the banks and their customers the funds so received are assigned to the bank and cannot be reached by the borrower or his creditors.

In 1928, the Board first ruled that member banks must maintain reserves against such hypothecated deposits. An interpretation to that effect was published in 1931 (1931 Fed. Res. Bulletin 538), and the Board has continued to adhere to that position.

The Board has reconsidered its earlier rulings and has decided that where the agreement between the bank and borrower is such that instalment payments on loans are irrevocably assigned to the bank and cannot be reached by the borrower or his creditors, such payments are not "deposits" regardless of the terms used in relevant State statutes or in the bank's books and records and, therefore, are not subject to the reserve requirements of Regulation D.

The Board's earlier rulings on this subject are superseded to the extent that they conflict with the conclusion expressed herein.