

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5913]
December 9, 1966

Regulations D and Q Amended Revising Definitions
of "Time Deposits" and "Savings Deposits"

Reserve Requirements Reduced on Christmas and Vacation Club Accounts

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued yesterday by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced the adoption of amendments to its Regulations D and Q ("Reserves of Member Banks"; "Payment of Interest on Deposits") designed to sharpen the technical distinctions between "time deposits" and "savings deposits." The amendments, which will become effective January 1, 1967, are substantially the same as those proposed on September 23, 1966.

At present, deposits of individuals or certain nonprofit organizations as to which the depositor is required by the deposit contract to give notice in writing not less than 30 days before making a withdrawal may be either "savings deposits" or "time deposits" (time certificate of deposit or time deposit, open account). Under the regulations as now amended, such a deposit can only be a "time deposit." The distinguishing feature of "savings deposits," in this respect, will be the *reservation* by the bank of the right to require 30 days' notice of withdrawal. In practice, banks routinely reserve such a right, although it is rarely exercised.

The amendments are also designed to make clear that a deposit payable on a specified date or at the expiration of a specified period of time after the date of the deposit (sometimes referred to as a "fixed maturity" deposit) does not constitute a "savings deposit."

In a companion action, the Board announced a reduction, effective January 5, 1967, in the required reserve percentages that must be maintained by member banks against Christmas and vacation club accounts. At present, a member bank is required to maintain reserves at the rate of 6 per cent against such accounts if its other time deposits (other than savings deposits) exceed \$5 million.

Effective January 5, the applicable rate for Christmas and vacation club accounts will be 4 per cent, which is the rate prescribed for savings deposits. The Board considers that Christmas and vacation club accounts serve the same function as savings deposits and that there is therefore no reason why reserves against them should be any higher than for savings deposits. This technical adjustment in reserve requirements will not substantially affect the total of member bank reserves.

Enclosed are copies of the amendments to Regulations D and Q and of the Supplement to Regulation D, giving effect to the Board's actions. Additional copies of this circular and the enclosures will be furnished upon request.

ALFRED HAYES,
President.

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

(12 CFR PART 204)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 1, 1967, Part 204 is amended as follows:

(a) Paragraphs (d) and (e) of section 204.1 are amended to read as follows:

SECTION 204.1—DEFINITIONS

* * * * *

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit,” with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.**—The term “savings deposit” means a deposit—

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of the period.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account,” within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made⁵ and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

(b) Footnotes 5, 6, and 7 in Part 204 are redesignated footnotes 6, 7, and 8, respectively.

⁵ The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

PAYMENT OF INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

(12 CFR PART 217)

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 1, 1967, Part 217 is amended as follows:

(a) Paragraphs (d) and (e) of section 217.1 are amended to read as follows:

SECTION 217.1—DEFINITIONS

* * * * *

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit,” with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.**—The term “savings deposit” means a deposit—

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made⁵ and which is not payable

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of the period.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account,” within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

⁵ The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

on a specified date or at the expiration of a specified time after the date of deposit.

(b) Section 217.5 is amended to read as follows:

SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice of withdrawal.**—Whether or not interest is paid, no member bank shall require or waive notice of withdrawal as to any amount or percentage of the savings deposit of any depositor unless it shall similarly require or waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same contractual provisions with respect to notice of withdrawal. If a member bank, without requiring notice of withdrawal, pays interest that has accrued on a savings deposit during the preceding interest period, it shall, upon request and without requiring such notice, pay interest that has accrued during said period on the savings deposits of every other depositor. No member bank shall change its practice with respect to the requiring or waiving of notice of withdrawal of savings deposits for the purpose of discriminating in favor of or against any depositor or depositors, and no such change of practice shall be made except pursuant to duly recorded action of the bank's board of directors or a properly authorized committee thereof.

(b) **Loans on security of savings deposits.**—If it is not the practice of a member bank to require notice of withdrawal of savings deposits, no restrictions are imposed by this part upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 2 per cent per annum in excess of the rate of interest paid on such deposit.

(c) **Manner of payment of savings deposits.**—(1) Subject to the provisions of subparagraph (2) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment⁸ to the depositor himself (but not to any other person whether or not acting for the depositor), except

(i) where the deposit is represented by a passbook, to any person presenting the passbook;⁸

(ii) to an executor, administrator, trustee, or other fiduciary holding the savings deposit as part of a fiduciary estate, or to a person, other than the bank, holding a general power of attorney granted by the depositor;

⁸ Payment from a savings deposit or presentation of a passbook may be made over the counter, through the mails, or otherwise.

(iii) to any person, including the bank, that has extended credit to the depositor on the security of the savings deposit, where such payment is made in order to enable the creditor to realize upon such security;

(iv) pursuant to the order of a court of competent jurisdiction;

(v) upon the death of the depositor, to any person authorized by law to receive the deposit; or

(vi) interest paid to a third person pursuant to written instruction or assignment by the depositor accepted by the bank, and placed on file therein.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, no withdrawal shall be permitted by a member bank to be made from a savings deposit, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor (other than of interest on the savings deposit) if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral,

(i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank; or

(ii) which provides that such payments or transfer of credit shall be made at daily, monthly, or other such periodic intervals, except where made to enable the bank, on the depositor's behalf and pursuant to his written instructions, to effect the payment of instalments of principal, interest, or other charges (including taxes or insurance premiums) due on a real estate loan or mortgage.

(3) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal from such a deposit shall be entered in the passbook as soon as practicable after the withdrawal is made.

(c) Footnotes 7 and 8 in Part 217 are redesignated footnotes 6 and 7, respectively.

SUPPLEMENT TO REGULATION D

Section 204.5—Supplement

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective as to all member banks at the opening of business on January 5, 1967.

(a) **Reserve percentages.**—Pursuant to the provisions of section 19 of the Federal Reserve Act and § 204.2(a) and subject to paragraph (b) of this section, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve bank of its district:

- (1) If not in a reserve city—
 - (i) 4 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months, plus
 - (ii) 4 per cent of its other time deposits up to \$5 million and 6 per cent of such deposits in excess of \$5 million, plus
 - (iii) 12 per cent of its net demand deposits.

(2) If in a reserve city (except as to any bank located in such a city which is permitted by the Board of Governors of the Federal Reserve System, pursuant to § 204.2(a)(2), to maintain the reserves specified in subparagraph (1) of this paragraph)—

- (i) 4 per cent of (A) its savings deposits and (B) its time deposits, open account, that constitute deposits of individuals, such as Christmas club accounts and vacation club accounts, that are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months, plus
- (ii) 4 per cent of its other time deposits up to \$5 million and 6 per cent of such deposits in excess of \$5 million, plus
- (iii) 16½ per cent of its net demand deposits.

(b) **Counting of currency and coin.**—The amount of a member bank's currency and coin shall be counted as reserves in determining compliance with the reserve requirements of paragraph (a) of this section.