

AT 6642

November 24, 1970

To the Addressee:

Enclosed are reprints, in the new size, of--

Regulation I, as amended effective February 1, 1963

Regulation J, as amended effective October 1, 1969

Regulation O, as amended effective March 15, 1968

Regulations I and O replace your small-size printing of those regulations bearing the same dates. Regulation J replaces your small-size printing of that regulation, as revised effective September 1, 1967, and the amendment thereto, effective October 1, 1969.

Circulars Division
Federal Reserve Bank of New York

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**ISSUE AND CANCELLATION OF CAPITAL STOCK
OF FEDERAL RESERVE BANKS**

REGULATION I

(12 CFR 209)

As amended effective February 1, 1963



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.

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REGULATION I

(12 CFR 209)

As amended effective February 1, 1963

ISSUE AND CANCELLATION OF CAPITAL STOCK OF FEDERAL RESERVE BANKS*

SECTION 209.1—NATIONAL BANK IN PROCESS OF ORGANIZATION

Each national bank,¹ while in process of organization,² shall file with the Federal Reserve Bank of its district an application on Form FR 30, and each nonmember State bank converting into a national bank,³ shall file an application on

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 209, cited as 12 CFR 209. The word "this Part", as used herein, mean Regulation I.

¹ Under the provisions of section 19 of the Federal Reserve Act (12 U.S.C. 466), national banks located in a dependency or insular possession or any part of the United States outside of the States of the United States and the District of Columbia are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. Any such bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve Bank with which it desires to do business.

² A new national bank with no capital or board of directors which is organized by the Federal Deposit Insurance Corporation pursuant to the provisions of section 11(h) of the Federal Deposit Insurance Act (12 U.S.C. 1821(h)), should not apply for stock of the Federal Reserve Bank of its district until it is in process of organization as a national bank with capital pursuant to the provisions of section 11(k) of the Federal Deposit Insurance Act (12 U.S.C. 1821(k)).

³ Whenever a State member bank is converted into a national bank under section 5154 of the Revised Statutes (12 U.S.C. 35), it may continue to hold as a national bank its shares of Federal Reserve Bank stock previously held as a State member bank. If the aggregate amount of its capital and surplus is increased or decreased, the national bank shall file an application on Form 56, as provided in § 209.3, for additional shares of Federal Reserve Bank stock or for cancellation of Federal Reserve

Form 30a, for an amount of capital stock of the Federal Reserve Bank of its district equal to six per cent of the paid-up⁴ capital and surplus of such national bank. If the application is found to be in proper form it will be approved by the Federal Reserve Bank effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. Upon approval, the applying bank shall thereupon⁵ pay the Federal Reserve Bank of its district one-half of the amount of its subscription and, upon receipt of advice from the Federal Reserve Bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend, and upon receipt of the payment for Federal Reserve Bank

Bank stock. The certificate of stock issued in the name of the State member bank shall be surrendered and canceled, and a new certificate will be issued in lieu thereof in the name of the national bank, as provided in § 209.13.

⁴ Subscriptions to the capital stock of the Federal Reserve Bank must be made in an amount at least equal to six per cent of the amount of the capital and surplus of the applying bank which is to be paid in at the time the Comptroller of the Currency authorizes it to commence business. In order to avoid the necessity of making applications for additional stock in the Federal Reserve Bank, as additional instalments of the capital and surplus of the applying bank are paid in, application may be made for stock in the Federal Reserve Bank in an amount equal to six per cent of the authorized capital of the applying bank, plus six per cent of the amount of surplus, if any, which the subscribers to the capital of the applying bank have agreed to pay in.

⁵ Payment may be made, if desired, at any time prior to approval of the application.

stock the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the Comptroller of the Currency that it has been received. When the Comptroller of the Currency issues his certificate of authority to commence business the Federal Reserve Bank will issue a stock certificate as of the date upon which the bank opens for business.

The remaining half of the subscription of the applying bank will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

SECTION 209.2—STATE BANK BECOMING MEMBER

Any State bank, Morris Plan bank, or mutual savings bank, desiring to become a member of the Federal Reserve System shall make application as provided in Part 208 of this chapter (Regulation H) and, when such application has been approved by the Board of Governors of the Federal Reserve System and all applicable requirements have been complied with, the Federal Reserve Bank will issue an appropriate certificate of Federal Reserve Bank stock as provided in § 208.5(b) of this chapter.

SECTION 209.3—INCREASE OR DECREASE OF CAPITAL OR SURPLUS

Whenever any member bank increases or decreases the aggregate amount of its paid-up capital and surplus,⁶ it shall file with the Federal Reserve Bank of its district an application on Form FR 56 for such additional amount or for the cancellation of such amount, as the case may be, of the capital stock of the Federal Reserve Bank of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six per cent of its combined capital and surplus. After

⁶ If a member bank sets up a reserve for dividends payable in common stock, such reserve will be regarded as surplus for the purpose of determining the amount of Federal Reserve Bank stock which the bank is required to hold, provided such reserve is established pursuant to a resolution of the board of directors, will become a part of the permanent capital of the bank, and will not be used for any other purpose than the payment of dividends in common stock.

an application for additional Federal Reserve Bank stock has been approved by the Federal Reserve Bank, the applying member bank shall pay to the Federal Reserve Bank of its district one-half of its additional subscription, plus one-half of one per cent a month from the period of the last dividend on such Federal Reserve Bank stock, whereupon the appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of such additional subscription will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. After an application for cancellation of Federal Reserve Bank stock has been approved, the Federal Reserve Bank will accept and cancel the stock which the applying bank is required to surrender, and will pay to the member bank a sum equal to all cash paid subscriptions made on the stock canceled plus one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof.

SECTION 209.4—INCREASE OR DECREASE OF DEPOSITS BY MUTUAL SAVINGS BANK

Whenever, as shown by the last report of condition as of a date preceding January 1 or July 1 of each year, the total deposit liabilities of a mutual savings bank which is a member of the Federal Reserve System have increased or decreased since the last adjustment of its holdings of Federal Reserve Bank stock, the bank shall file with the Federal Reserve Bank of its district an application on Form FR 56a for such additional amount or for the cancellation of such amount, as the case may be, of Federal Reserve Bank stock of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six-tenths of one per cent of its total deposit liabilities as shown by such last report of condition, and Federal Reserve Bank stock will be issued or canceled in the manner described in § 209.3. In the case of any mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in the Federal Reserve Bank and has a deposit with the Federal Reserve Bank in lieu of such subscription, such deposit will be adjusted in the same manner as subscriptions for stock.

**SECTION 209.5—MERGER OR
CONSOLIDATION**

(a) Whenever two or more member banks merge or consolidate and such action results in the merged or consolidated bank acquiring by operation of law ⁷ the Federal Reserve Bank stock owned by the other bank or banks, and which also results in the merged or consolidated bank having an aggregate capital and surplus in excess of, or less than, the aggregate capital and surplus of the merging or consolidating member banks, such merged or consolidated bank shall, as provided in § 209.3, file with the Federal Reserve Bank of its district an application on Form FR 56 for such additional amount, or for the cancellation of such amount, as the case may be, of Federal Reserve Bank stock of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six per cent of its combined capital and surplus. In any such case, the merged or consolidated bank shall surrender to the Federal Reserve Bank the certificates of Federal Reserve Bank stock held by the merged or consolidated bank and a new certificate will be issued as provided in § 209.13(b).

(b) Whenever a member bank merges or consolidates with a nonmember bank, under the charter of the latter bank, an application on Form FR 86a shall be filed with the Federal Reserve

⁷ Section 5 of the Federal Reserve Act provides that "Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated." This provision prevents a transfer of Federal Reserve Bank stock by purchase, but does not prevent a transfer by operation of law. Where one member bank purchases all or a substantial portion of the assets of another member bank, the latter being placed in liquidation, it is necessary for the liquidating bank to surrender its Federal Reserve Bank stock, as provided in § 209.8, and for the purchasing bank, if its capital and surplus is increased or decreased, to adjust its holdings of Federal Reserve Bank stock as provided in § 209.3.

If the assets and obligations of a merging or consolidating member bank are transferred to a merged or consolidated member bank by operation of law, no bank being placed in liquidation, the merged or consolidated bank becomes the owner of the Federal Reserve Bank stock of the merging or consolidating bank as soon as the merger or consolidation takes effect, and a new certificate representing Federal Reserve Bank stock will be issued as provided in § 209.13(b). Mergers or consolidations under the acts of Congress providing for the merger or consolidation of national banking associations (12 U.S.C. 215, 215a) meet all of these conditions.

Bank for cancellation of Federal Reserve Bank stock held by the member bank. Upon approval of such application, the Federal Reserve Bank will cancel such stock as of the date the merger or consolidation takes effect, and will adjust accounts by applying to any indebtedness of the merging or consolidating bank to such Federal Reserve Bank all cash paid subscriptions made on the stock canceled plus one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof, and the remainder, if any, will be paid to the merged or consolidated bank.

**SECTION 209.6—CONVERSION OF
NATIONAL BANK**

Whenever a national bank converts into a nonmember State bank, an application on Form FR 86b shall be filed with the Federal Reserve Bank for cancellation of Federal Reserve Bank stock held by the national bank. Upon approval of such application, the Federal Reserve Bank will cancel such stock as of the date the conversion takes effect, and will adjust accounts in the manner described in § 209.5(b).

SECTION 209.7—INSOLVENCY

Whenever a member bank is declared insolvent and a receiver ⁸ appointed, the receiver shall, within three months from the date of his appointment, file with the Federal Reserve Bank of the district an application on Form FR 87 for cancellation of Federal Reserve Bank stock held by the insolvent member bank. If the receiver fails to make application within the time specified, the board of directors of the Federal Reserve Bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant the receiver additional time in which to file an application. Upon approval of such application or upon issuance of such order, the Federal Reserve Bank will cancel such stock as of the date of such approval or order and will adjust accounts in the manner described in § 209.5(b).

⁸ The term "receiver" includes any person, commission, or other agency charged by law with the duty of winding up the affairs of the bank.

**SECTION 209.8—VOLUNTARY
LIQUIDATION**

Whenever a member bank goes into voluntary liquidation, as, for example, upon sale of assets to another bank, the liquidating agent or some other person or persons duly authorized by the stockholders or board of directors to act on behalf of the bank shall, within three months from the date of the vote to place the bank in voluntary liquidation, file with the Federal Reserve Bank of the district an application on Form FR 86 for cancellation of Federal Reserve Bank stock held by the liquidating member bank. If such application is not filed within the time specified, the board of directors of the Federal Reserve Bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant additional time in which to file an application. Upon approval of such application, or upon issuance of such order, the Federal Reserve Bank will cancel such stock as of the date of such approval or order and will adjust accounts between the liquidating member bank and the Federal Reserve Bank in the manner described in § 209.5(b).

**SECTION 209.9—OTHER CLOSED
NATIONAL BANKS**

(a) Whenever a national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes of the United States (12 U.S.C. 181), and for which a receiver has not been appointed, discontinues its banking operations for a period of sixty days, the Federal Reserve Bank will report the facts to the Comptroller of the Currency with a statement of reasons why a receiver should be appointed for the national bank. If such receiver is appointed, the procedure prescribed in § 209.7 for cancellation of Federal Reserve Bank stock held by the national bank shall be followed.

(b) Whenever a national bank has been placed in the hands of a conservator, the procedure prescribed in § 209.7 for cancellation of Federal Reserve Bank stock held by such bank shall be followed; provided a certificate is furnished by the Comptroller of the Currency to the effect that the conservator has been authorized to apply for cancellation of Federal Reserve Bank stock, and that the bank is to be liquidated and is not to be permitted to resume business or to reorganize.

**SECTION 209.10—OTHER CLOSED STATE
MEMBER BANKS**

Whenever a State member bank ceases to exercise banking functions without being placed in liquidation in accordance with the laws of the State in which it is located and without a receiver⁹ appointed for it, and such bank has not within sixty days of the cessation of banking functions applied for withdrawal from membership in the Federal Reserve System as provided in Part 208 of this chapter (Regulation H), the Federal Reserve Bank of the district in which such State member bank is located will furnish the Board of Governors of the Federal Reserve System with full information with reference to the facts involved in the case and with a definite recommendation as to whether the Board should require the State member bank to surrender its Federal Reserve Bank stock and terminate all rights and privileges of membership in the Federal Reserve System. Upon receipt of this advice, if termination of membership of the State member bank appears desirable, the Board will give the member bank notice of the date upon which a hearing will be held to determine whether its membership should be terminated. If, after such hearing, the membership of a State bank is terminated, the Board will direct the Federal Reserve Bank of the Federal Reserve district in which the member bank is located to cancel the Federal Reserve Bank stock as of the date of termination of membership and adjust accounts in the manner described in § 209.5(b).

**SECTION 209.11—VOLUNTARY
WITHDRAWAL FROM MEMBERSHIP**

Any State member bank desiring to withdraw from membership in the Federal Reserve System shall follow the procedure set forth in Part 208 of this chapter (Regulation H), and when all applicable requirements of § 208.10 have been complied with the Federal Reserve Bank will cancel the Federal Reserve Bank stock held by the member bank as of the date of withdrawal from membership and will adjust accounts in the manner described in § 209.5(b).

⁹ The term "receiver" includes any person, commission, or other agency charged by law with the duty of winding up the affairs of the bank.

**SECTION 209.12—INVOLUNTARY
TERMINATION OF MEMBERSHIP**

Any State member bank whose membership has been terminated for failure to comply with the provisions of the Federal Reserve Act or regulations of the Board of Governors of the Federal Reserve System shall surrender its Federal Reserve Bank stock as of the date membership is terminated and accounts will be adjusted in the manner described in § 209.5(b).

**SECTION 209.13—CANCELLATION OF OLD
AND ISSUE OF NEW STOCK CERTIFICATE**

(a) Whenever a member bank changes its name it shall surrender to the Federal Reserve Bank the certificate of Federal Reserve Bank stock which was issued to it under its old name. If the Federal Reserve Bank has or is furnished with proof of the change of name, it will cancel the certificate so surrendered and will issue in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered.

(b) If a member bank has filed an application for an increase or decrease in its holdings of Federal Reserve Bank stock pursuant to the provisions of § 209.3, or has acquired the Federal Reserve Bank stock from another bank by virtue of a merger or consolidation of the kind described in § 209.5(a), it shall surrender the stock certificate previously issued to it and the certificate representing any stock so acquired, and the Fed-

eral Reserve Bank will issue a new certificate for the number of shares represented by the surrendered certificate or certificates decreased by the number of shares canceled or increased by the number of additional shares to be issued.

(c) In order to provide a convenient means for identifying shares of Federal Reserve Bank stock purchased and paid for prior to March 28, 1942, as to which dividends are not subject to Federal taxation, the Federal Reserve Bank will endorse on the back of the stock certificate an appropriate notation setting forth the number of shares represented which were purchased and paid for prior to March 28, 1942, and the number of shares purchased and paid for on or after that date. In lieu of issuing a single certificate, the Federal Reserve Bank may issue two certificates to each member bank holding both classes of stock, one representing stock purchased and paid for prior to March 28, 1942, and the other representing stock purchased and paid for on or after that date, in which case the former will be endorsed to read: "This certificate represents shares of Federal Reserve Bank stock which were purchased and paid for prior to March 28, 1942." No endorsement will be necessary on the latter certificate.

SECTION 209.14—FORMS

All forms referred to in this Part and all such forms as they may be amended from time to time shall be a part of the regulation contained in this Part.

STATUTORY APPENDIX

SECTION 2 OF THE FEDERAL RESERVE ACT

Section 2 provides in part as follows: ¹

1. Establishment of reserve cities and districts

Sec. 2. * * * Every national bank in any State shall, upon commencing business or within ninety days after admission into the Union of the State in which it is located, become a member bank of the Federal Reserve System by subscribing and paying for stock in the Federal Reserve bank of its district in accordance with the provisions of this Act and shall thereupon be an insured bank under the Federal Deposit Insurance Act, and failure to do so shall subject such bank to the penalty provided by the sixth paragraph of this section.

[U. S. C., title 12, sec. 222.]
* * * * *

3. Subscription to stock by national banks

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates.

[U. S. C., title 12, sec. 282.]
* * * * *

¹ Paragraph numbers and captions have been added to facilitate reference.

12. Transfer of stock

The Board of Governors of the Federal Reserve System is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

[U. S. C., title 12, sec. 286.]
* * * * *

SECTION 5 OF THE FEDERAL RESERVE ACT

Section 5 provides as follows:

1. Amount of shares; increase and decrease of capital; surrender and cancellation of stock

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Board of Governors of the Federal Reserve System. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank

shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank.

[U. S. C., title 12, sec. 287.]

SECTION 6 OF THE FEDERAL RESERVE ACT

Section 6 provides as follows:

1. Insolvency of member banks

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

[U. S. C., title 12, sec. 288.]

2. National bank discontinuing banking operations

If any national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes (United States Code, title 12, section 181) and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of sixty days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares canceled and one-half of 1 per centum a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

[U. S. C., title 12, sec. 288.]

SECTION 9 OF THE FEDERAL RESERVE ACT

Section 9 provides in part as follows:

1. Applications for membership by State banks

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, including Morris Plan banks and other incorporated banking institutions engaged in similar business, desiring to become a member of the Federal Reserve System, may make application to the Board of Governors of the Federal reserve system, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. For the purposes of membership of any such bank the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank.

[U. S. C., title 12, sec. 321.]

* * * * *

5. Payment of subscription

Whenever the Board of Governors of the Federal Reserve System shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Board of Governors of the Federal Reserve System, and stock issued to it shall be held subject to the provisions of this Act.

[U. S. C., title 12, sec. 323.]

* * * * *

9. Forfeiture of membership

If at any time it shall appear to the Board of Governors of the Federal Reserve System that a member bank has failed to comply with the provisions of this section or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it

shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership.* * *

[U. S. C., title 12, sec. 327.]

10. Voluntary withdrawal from membership

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Board of Governors of the Federal Reserve System, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided*, That the Board of Governors of the Federal Reserve System, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw: *Provided, however*, That no Federal reserve bank shall, except under express authority of the Board of Governors of the Federal Reserve System, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Board of Governors of the Federal Reserve System, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve bank it shall be entitled to a refund of its cash subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

[U. S. C., title 12, sec. 328.]

* * * * *

16. Admission to membership of mutual savings banks

Any mutual savings bank having no capital

stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings banks shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual

savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law appli-

cable to State member banks and trust companies, with the regulations of the Board of Governors of the Federal Reserve System and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

[U. S. C., title 12, sec. 333.]

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BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**COLLECTION OF CHECKS AND OTHER ITEMS
BY FEDERAL RESERVE BANKS**

REGULATION J

(12 CFR 210)

As amended effective October 1, 1969



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises. Copies of such Banks' operating letters that are referred to in this regulation are available upon request to the issuing Bank.

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REGULATION J

(12 CFR 210)

As amended effective October 1, 1969

COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS*

SECTION 210.1—AUTHORITY AND SCOPE

(a) Pursuant to the provisions of section 13 of the Federal Reserve Act, as amended (12 U.S.C. § 342), section 16 of the Federal Reserve Act (12 U.S.C. § 248(o); 12 U.S.C. § 360), section 11(i) of the Federal Reserve Act (12 U.S.C. § 248(i)), and other provisions of law, the Board of Governors of the Federal Reserve System has promulgated this Part governing the collection of checks and other cash items and the collection of noncash items by the Federal Reserve Banks.

(b) The Federal Reserve Banks, as depositories and fiscal agents of the United States, handle certain items as cash items or noncash items. To the extent contemplated by regulations issued by, and arrangements made with, the United States Treasury Department and other Government Departments, the handling of such items by the Federal Reserve Banks is governed by the provisions of this Part. The operating letters of the Federal Reserve Banks shall include such information regarding the currently effective provisions of those regulations and arrangements (as well as any similar regulations and arrangements hereafter issued or made) as they shall deem necessary and appropriate for the guidance of banks concerned with the collection or payment of such items.

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 210 cited, as 12 CFR 210. The words "this Part," as used herein, mean Regulation J.

SECTION 210.2—DEFINITIONS

As used in this Part, unless the context otherwise requires:

(a) The term "item" means any instrument for the payment of money, whether negotiable or not, which is payable in a Federal Reserve district,¹ is sent by a sender or a nonbank depositor to a Federal Reserve Bank for handling under this Part, and is collectible in funds acceptable to the Federal Reserve Bank of the district in which the instrument is payable; except that the term does not include any check which cannot be collected at par.²

(b) The term "check" means any draft drawn on a bank and payable on demand.

(c) The term "draft" means any item which is either a "draft" as defined in the Uniform Commercial Code or a "bill of exchange" as defined in the Uniform Negotiable Instruments Law.

(d) The term "bank draft" means any check drawn by one bank on another bank.

(e) The term "sender", in respect of an item, means a member bank, a nonmember clearing

¹ For the purposes of this Part, the Virgin Islands and Puerto Rico shall be deemed to be in or of the Second Federal Reserve District; and Guam shall be deemed to be in or of the Twelfth Federal Reserve District.

² The Board of Governors publishes from time to time a "Federal Reserve Par List," which indicates the banks upon which checks are collectible at par through the Federal Reserve Banks, and publishes a supplement thereto each month to show changes subsequent to the last complete list.

bank, a Federal Reserve Bank, an international organization, or a foreign correspondent.

(f) The term “nonmember clearing bank” means a bank, not a member of the Federal Reserve System, which maintains with a Federal Reserve Bank the balance referred to in the first paragraph of section 13 of the Federal Reserve Act, and any corporation which maintains an account with a Federal Reserve Bank in conformity with the requirements of § 211.7 of Part 211 of this chapter (Regulation K).

(g) The term “international organization” means any international organization for which the Federal Reserve Banks are empowered to act as depositories or fiscal agents subject to regulation by the Board of Governors of the Federal Reserve System and for which a Federal Reserve Bank has opened and is maintaining an account.

(h) The term “foreign correspondent” means any of the following for which a Federal Reserve Bank has opened and is maintaining an account: A foreign bank or banker, or foreign state as defined in section 25(b) of the Federal Reserve Act (12 U.S.C. § 632), or a foreign correspondent or agency referred to in section 14(e) of that Act (12 U.S.C. § 358).

(i) The term “cash item” means:

(1) Any check other than a check classified as a noncash item in accordance with paragraph (j) of this section; or

(2) Any other item payable on demand and collectible at par which the Federal Reserve Bank of the district in which the item is payable may be willing to accept as a cash item.

(j) The term “noncash item” means any item which the receiving Federal Reserve Bank, in its operating letters, shall have classified as an item requiring special handling and any item normally received by the Federal Reserve Bank as a cash item if such bank decides that special conditions require that it be handled as a noncash item.

(k) The term “paying bank” means:

(1) The bank by which an item is payable and to which it is presented, unless the item is payable or collectible through another bank and is sent to such other bank for payment or collection; or

(2) The bank through which an item is payable or collectible and to which it is sent for payment or collection.

(l) The term “nonbank payor” means any payor of an item, other than a bank.

(m) The term “nonbank depositor” means any department, agency, instrumentality, independent establishment, or officer of the United States, or any corporation other than a sender, which maintains or uses an account with a Federal Reserve Bank. Except as may otherwise be provided by any applicable statutes of the United States or regulations issued or arrangements made thereunder, the provisions of this Part and of the operating letters of the Federal Reserve Banks applicable to a sender are applicable to a nonbank depositor.

(n) The term “State” means any State of the United States, the District of Columbia, or Puerto Rico, or any territory, possession or dependency of the United States.

(o) The term “banking day” means any day during which a bank is open to the public for carrying on substantially all its banking functions.

SECTION 210.3—GENERAL PROVISIONS

In order to afford both to the public and to the banks of the country a direct, expeditious, and economical system for the collection of items and the settlement of balances, each Federal Reserve Bank shall receive and handle cash items and noncash items in accordance with the terms and conditions set forth in this Part; and the provisions of this Part and the operating letters of the Federal Reserve Banks shall be binding upon the sender of a cash item or a noncash item and shall be binding upon each collecting bank, paying bank, and nonbank payor to which the Federal Reserve Bank, or any subsequent collecting bank, presents, sends, or forwards a cash item or a noncash item received by the Federal Reserve Bank.

SECTION 210.4—SENDING OF ITEMS TO FEDERAL RESERVE BANKS

(a) Subject to the provisions of this Part and of the operating letters of the Federal Reserve Banks, any sender (other than a Federal Reserve Bank) may send to the Federal Reserve Bank with which it maintains or uses an account any cash item or noncash item payable in any Federal Reserve district; but, as permitted or required by such Federal Reserve Bank, such sender may send direct to any other Federal Reserve Bank any cash item or noncash item payable within the district of such other Federal Reserve Bank.

(b) With respect to any cash item or noncash item, sent direct by a sender (other than a Federal Reserve Bank) in one district to a Federal Reserve Bank in another district, in accordance with paragraph (a) of this section, the relationships and the rights and liabilities existing between the sender, the Federal Reserve Bank of its district and the Federal Reserve Bank to which the item is sent will be the same, and the provisions of this Part will apply, as though the sender had sent such item to the Federal Reserve Bank of its district and such Federal Reserve had forwarded the item to the other Federal Reserve Bank.

(c) The Federal Reserve Banks shall receive cash items at par.

SECTION 210.5—SENDER'S AGREEMENT

(a) By its action in sending any cash item or noncash item to a Federal Reserve Bank, the sender shall be deemed to authorize the receiving Federal Reserve Bank and any other Federal Reserve Bank or other collecting bank to which such item may be forwarded, to handle such item subject to the provisions of this Part and of the operating letters of the Federal Reserve Banks; to warrant its own authority to give such authority; and to agree that such provisions shall, insofar as they are made applicable thereto, govern the relationships between such sender and the Federal Reserve Banks with respect to the handling of such item and its proceeds.

(b) The sender shall be deemed to warrant to each Federal Reserve Bank handling such item (1) that it has good title to the item or is authorized to obtain payment on behalf of one who has good title, whether or not such warranty is evidenced by its express guaranty of prior indorsements on such item, and (2) such other matters and things as the Federal Reserve Bank shall warrant in respect of such item consistently with paragraph (b) of § 210.6; but the provisions of this paragraph shall not be deemed to constitute a limitation upon the scope or effect of any warranty by a sender arising under the law of any State applicable to it; and such sender shall be deemed to agree to indemnify each Federal Reserve Bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sender to have the authority to make the

warranty and the agreement referred to in paragraph (a) of this section, resulting from any action taken by the Federal Reserve Bank within the scope of its authority in handling such item, or resulting from any warranty or agreement with respect thereto made by the Federal Reserve Bank consistently with paragraph (b) of § 210.6.

(c) Whenever any action or proceeding is brought in any court against a Federal Reserve Bank which has collected an item, based upon the alleged failure of the sender of such item to have the authority to make the warranty and the agreement referred to in paragraph (a) of this section, or upon any action taken by such Federal Reserve Bank within the scope of its authority for the purpose of collecting such item, or upon any warranty or agreement with respect thereto made by such Federal Reserve Bank consistently with paragraph (b) of § 210.6 of this Part, such Federal Reserve Bank may, upon the entry of a final judgment or decree in such action or proceeding, recover from the sender in the manner provided herein the amount of attorneys' fees and other expenses of litigation actually incurred, and, in addition, any amount required to be paid by such Federal Reserve Bank under such judgment or decree, together with interest thereon. Such recovery may be effected by charging the amount thereof to any account of the sender maintained on the books of such Federal Reserve Bank (or if the sender is another Federal Reserve Bank, by entering a charge therefor against such other Federal Reserve Bank through the Interdistrict Settlement Fund), provided only (1) that such Federal Reserve Bank shall have made reasonable demand on the sender in writing to assume the defense of the action or proceeding, and (2) that the sender shall not have made any other provision acceptable to such Federal Reserve Bank for the payment of such amount. A Federal Reserve Bank against which any such charge has been entered through the Interdistrict Settlement Fund may recover from its sender, in any case herein provided, as if the action or proceeding against the Federal Reserve Bank which entered the charge had been brought against it. The failure of any Federal Reserve Bank to avail itself of the remedy provided by this paragraph shall not prejudice the enforcement by it in any other manner of the indemnity agreement referred to in paragraph (b) of this section.

**SECTION 210.6—STATUS AND
WARRANTIES OF FEDERAL RESERVE
BANK**

(a) A Federal Reserve Bank will act only as the agent of the sender in respect of each cash item or noncash item received by it from the sender, but such agency shall terminate not later than the time when the Federal Reserve Bank shall have received payment for the item in actually and finally collected funds and shall have made the proceeds available for withdrawal or other use by the sender. A Federal Reserve Bank will not act as the agent or the subagent of any owner or holder of any such item other than the sender. A Federal Reserve Bank shall not have, nor will it assume, any liability to the sender in respect of any such item and its proceeds except for its own lack of good faith or failure to exercise ordinary care.³

(b) By its action in presenting, or sending for presentment and payment, or forwarding any cash item or any noncash item, a Federal Reserve Bank shall be deemed to warrant to a subsequent collecting bank and to the paying bank and any other payor (1) that it has a good title to the item or is authorized to obtain payment on behalf of one who either has a good title or is authorized to obtain payment on behalf of one who has such title, whether or not such warranty is evidenced by its express guaranty of prior indorsements on such item, and (2) to the extent prescribed by the law of any State applicable either to the Federal Reserve Bank as a collecting bank or to the subsequent collecting bank, that the item has not been materially altered; but otherwise the Federal Reserve Bank shall not have, and shall not be deemed to assume, any liability (except for its own lack of good faith or failure to exercise ordinary care) to such paying bank or other payor.

³ No Federal Reserve Bank shall be responsible to the sender of any cash item, or any other owner or holder thereof, for any delay resulting from the action taken by the Federal Reserve Bank in presenting, sending, or forwarding the item on the basis of (a) any A.B.A. transit number or routing symbol appearing thereon at the time of its receipt by the Federal Reserve Bank, whether inscribed by magnetic ink or by any other means, and whether or not such transit or routing symbol is consistent with each other form of designation of a paying bank (or nonbank payor) then appearing thereon, or (b) any other form of designation of a paying bank (or nonbank payor) then appearing thereon, whether or not consistent with A.B.A. transit number or routing symbol then appearing thereon.

**SECTION 210.7—PRESENTMENT FOR
PAYMENT**

(a) Any cash item or any noncash item may be presented for payment by a Federal Reserve Bank or a subsequent collecting bank, or may be sent by a Federal Reserve Bank or a subsequent collecting bank for presentment and payment, or may be forwarded by a Federal Reserve Bank to a subsequent collecting bank with authority to present it for payment or to send it for presentment and payment, as provided under applicable rules of State law or otherwise as permitted by this section.

(b) Presentment may be made at a place where the bank by which the item is payable has requested that presentment be made. Presentment of an item payable by a nonbank payor, other than through a paying bank, may be made at a place where the nonbank payor has requested that presentment be made. Presentment may also be made pursuant to any special collection agreement not inconsistent with the terms of this Part, or may be made through a clearing house subject to the rules and practices thereof.

(c) Any cash item or noncash item, payable in the district of the receiving Federal Reserve Bank, may be presented or sent direct to the paying bank, if any; may be sent direct to any place where the bank through which the item is payable has requested that the item be sent; and, when payable by a nonbank payor other than through a paying bank, may be presented direct to the nonbank payor, but documents, securities or other papers accompanying a noncash item may not be delivered to the nonbank payor thereof before payment of the item, unless the sender has specifically authorized such delivery.

(d) Any cash item or noncash item, payable in a Federal Reserve district other than the district of the receiving Federal Reserve Bank, will ordinarily be forwarded to the Federal Reserve Bank of the district in which the item is payable: *Provided, however,* That with the concurrence of the Federal Reserve Bank of the district in which the item is payable, the receiving Federal Reserve Bank may present, send, or forward the item as if it were payable in its own district.

**SECTION 210.8—PRESENTMENT OF
NONCASH ITEMS FOR ACCEPTANCE**

Whenever a noncash item provides that it must be presented for acceptance or is payable else-

where than at the residence or place of business of the drawee, or whenever the date of payment of a noncash item depends upon presentment for acceptance, a Federal Reserve Bank or a subsequent collecting bank to which it has been sent by a Federal Reserve Bank may, if so instructed by the sender, present the item for acceptance in any manner authorized by law; but no Federal Reserve Bank or subsequent collecting bank shall, upon the acceptance of any such item, deliver to the drawee thereof any accompanying documents unless specifically instructed by the sender to do so. Each Federal Reserve Bank shall include in its operating letters a statement of the circumstances under which a sender may send such noncash items to the Federal Reserve Bank for presentment for acceptance, and of the terms and conditions (which shall not be inconsistent with the provisions of this Part) upon which such presentment may be made. Except as herein provided, no Federal Reserve Bank shall have or assume any obligation to present any noncash item for acceptance or to send it for presentment for acceptance.

SECTION 210.9—REMITTANCE AND PAYMENT

(a) A Federal Reserve Bank may require the paying bank or collecting bank to which it has presented, sent, or forwarded any cash item or noncash item pursuant to § 210.7 to pay or remit for such item in cash, but is authorized, in its discretion, to permit such paying bank or collecting bank to authorize or cause payment or remittance therefor to be made by a debit to an account on the books of such Federal Reserve Bank or to pay or remit therefor in any of the following which is in a form acceptable to such Federal Reserve Bank: Bank draft, transfer of funds or bank credit, or any other form of payment or remittance authorized by applicable State law. A Federal Reserve Bank may require the nonbank payor to which it has presented any cash item or noncash item pursuant to § 210.7 to pay therefor in cash, but is authorized, in its discretion, to permit such nonbank payor to pay therefor in any of the following which is in a form acceptable to such Federal Reserve Bank: Cashier's check, certified check, or other bank draft or obligation.

(b) A Federal Reserve Bank shall not be liable for the failure of a collecting bank or pay-

ing bank or nonbank payor to pay or remit for any such cash item or noncash item, nor for any loss resulting from the acceptance of any form of payment or remittance other than cash authorized in paragraph (a) of this section; nor shall any Federal Reserve Bank which acts in good faith and exercises ordinary care be liable for the nonpayment of, or failure to realize upon, any bank draft or other form of payment or remittance which it may accept in accordance with paragraph (a) of this section.

(c) Any bank draft or other form of payment or remittance received by a Federal Reserve Bank in payment of, or in remittance for, any cash item may likewise be handled as a cash item subject to all the applicable terms and conditions of this Part; and any bank draft or other form of remittance or payment received by a Federal Reserve Bank in payment of, or in remittance for, any noncash item may, at the option of the Federal Reserve Bank, be handled either as a cash item or as a noncash item, subject to all the applicable terms and conditions of this Part.

SECTION 210.10—TIME SCHEDULE AND AVAILABILITY OF CREDITS WITH RESPECT TO CASH ITEMS

(a) Each Federal Reserve Bank shall include in its operating letters a time schedule for each of its offices when the amount of any cash item received by it from any sender or sent by any sender to another Federal Reserve office for the account of such Federal Reserve Bank will be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) and become available for withdrawal or other use by the sender. The sender (other than a foreign correspondent) will be given either immediate credit or deferred credit for such amount in accordance with such time schedule. A foreign correspondent will ordinarily be given credit for such amount only when the Federal Reserve Bank has received payment for the item in actually and finally collected funds: *Provided, however,* That the Federal Reserve Bank may in its discretion give immediate or deferred credit for such amount in accordance with such time schedule.

(b) Notwithstanding the provisions of its time schedule, a Federal Reserve Bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any cash item for which the Federal Reserve Bank has not

yet received payment in actually and finally collected funds.

SECTION 210.11—AVAILABILITY OF PROCEEDS OF NONCASH ITEMS

(a) Credit will be given for the proceeds of a noncash item when the receiving Federal Reserve Bank has received payment for such item in actually and finally collected funds or advice from another Federal Reserve Bank of such payment to it, and the amount of such item shall not be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) or become available for withdrawal or other use by the sender prior to the receipt of such payment or advice, except to the extent provided in paragraph (c) of this section.

(b) A Federal Reserve Bank shall be deemed to have received payment for a noncash item in actually and finally collected funds as soon as it has received payment therefor in cash or has received any other form of payment or remittance therefor which is, or has become, final and irrevocable.

(c) A Federal Reserve Bank may, prior to the time provided in paragraph (a) of this section, give credit for the proceeds of a noncash item received by it from a sender, subject to payment in actually and finally collected funds, in accordance with a time schedule included in its operating letters, indicating when the proceeds of such noncash items will be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) and become available for withdrawal or other use by the sender.

(d) Notwithstanding paragraph (c) of this section, a Federal Reserve Bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given for any noncash item for which the Federal Reserve Bank has not yet received payment in actually and finally collected funds.

(e) Where a Federal Reserve Bank receives, in payment or remittance for a noncash item, a bank draft or other form of remittance or payment which, in accordance with paragraph (c) of § 210.9, it elects to handle as a noncash item, the proceeds of the noncash item for which the payment or remittance was made shall neither be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) nor become available for withdrawal or other use until such time as the Federal Reserve Bank receives pay-

ment in actually and finally collected funds for such bank draft or other form of remittance or payment, in accordance with the provisions of this section.

SECTION 210.12—RETURN OF CASH ITEMS

(a) A paying bank which receives a cash item from or through a Federal Reserve Bank, otherwise than for immediate payment over the counter, shall, unless it returns such item unpaid before midnight of the banking day of receipt,⁴ either pay or remit therefor on the banking day of receipt, or, if acceptable to the Federal Reserve Bank concerned, authorize or cause payment or remittance therefor to be made by debit to an account on the books of the Federal Reserve Bank not later than the banking day for such Federal Reserve Bank on which any other acceptable form of timely payment or remittance would have been received by the Federal Reserve Bank in the ordinary course: *Provided*, That such paying bank shall have the right to recover any payment or remittance so made if, before it has finally paid the item, it returns the item before midnight of its banking day next following the banking day of receipt or takes such other action to recover such payment or remittance within such time and by such means as may be provided by applicable State law: *And further provided*, That the foregoing provisions shall not extend, nor shall the time herein provided for return be extended by, the time for return of unpaid items fixed by the rules and practices of any clearing house through which the item was presented or fixed by the provisions of any special collection agreement pursuant to which it was presented.

(b) Any paying bank which takes or receives a credit or obtains a refund for the amount of any payment or remittance made by it in respect of a cash item received by it from or through a Federal Reserve Bank shall be deemed (1) to warrant to such Federal Reserve Bank, to a subsequent collecting bank, and to the sender and all prior parties that it took all action necessary to entitle it to recover such payment or remittance

⁴ A cash item received by a paying bank either:

(1) on a day other than a banking day for it, or

(2) on a banking day for it, but—

(a) after its regular banking hours, or

(b) after a "cut-off hour" established by it in accordance with applicable State law, or

(c) during afternoon or evening periods when it is open for limited functions only,

shall be deemed to have been received by the bank on its next banking day.

within the time or times limited therefor by the provisions of this Part, by the applicable rules and practices of any clearing house through which the item was presented, by the applicable provisions of any special collection agreement pursuant to which it was presented, and, except as a longer time may be afforded by the provisions of this Part, by applicable State law; and (2) to agree to indemnify such Federal Reserve Bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from its action in giving such credit or making such refund, or in making any charge to, or obtaining any refund from, the sender. No Federal Reserve Bank shall have any responsibility to such paying bank or any subsequent collecting bank or to the sender of the item or any other prior party thereon for determining whether the action hereinabove referred to was timely.

SECTION 210.13—CHARGEBACK OF UNPAID CASH ITEMS AND NONCASH ITEMS

If a Federal Reserve Bank does not receive payment in actually and finally collected funds for any cash item or noncash item for which it gave credit subject to payment in actually and finally collected funds, the amount of such item shall be charged back to the sender, regardless of whether or not the item itself can be returned. In such event, neither the owner or holder of any such item nor the sender shall have the right of recourse upon, interest in, or right of payment from, any reserve balance, clearing account, deposit account, or other funds of the paying bank or of any collecting bank, in the possession of the Federal Reserve Bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds in the possession of a Federal Reserve Bank, issued for the purpose of paying or remitting for any cash items or noncash items handled under the terms of this Part, will be paid, acted upon, or honored after receipt by such Federal Reserve Bank of notice of suspension or closing of the bank making the payment or remittance for its own or another's account.

SECTION 210.14—TIMELINESS OF ACTION

If, because of interruption of communication facilities, suspension of payments by another bank, war, emergency conditions or other circum-

stances beyond its control, any bank (including a Federal Reserve Bank) shall be delayed beyond the time limits provided in this Part or the operating letters of the Federal Reserve Banks, or prescribed by the applicable law of any State in taking any action with respect to a cash item or a noncash item, including forwarding such item, presenting it or sending it for presentment and payment, paying or remitting for it, returning it or sending notice of dishonor or nonpayment, or making or providing for any necessary protest, the time of such bank, as limited by this Part or the operating letters of the Federal Reserve Banks, or by the applicable law of any State, for taking or completing the action thereby delayed shall be extended for such time after the cause of the delay ceases to operate as shall be necessary to take or complete the action, provided the bank exercises such diligence as the circumstances require.

SECTION 210.15—EFFECT OF DIRECT PRESENTMENT OF CERTAIN WARRANTS

Whenever a Federal Reserve Bank exercises its option to present direct to the payor any bill, note or warrant issued and payable by any State or any county, district, political subdivision or municipality of any State, such bill, note or warrant being a cash item not payable or collectible through a bank, the provisions of §§ 210.9, 210.12, and 210.13 and the operating letters of the Federal Reserve Banks shall be applicable to the payor as if it were a paying bank, the provisions of § 210.14 shall be applicable to it as if it were a bank, and each day on which the payor shall be open for the regular conduct of its affairs or the accommodation of the public shall be treated as if it were a banking day for it, within the meaning and for the purposes of § 210.12.

SECTION 210.16—OPERATING LETTERS

Each Federal Reserve Bank shall issue operating letters (sometimes referred to as operating circulars or bulletins), not inconsistent with this Part, governing the details of its operations in the handling of cash items and noncash items, and containing such other matters as are required by the provisions of this Part. Such letters may, among other things, classify cash items and non-cash items, require separate sorts and letters, and provide different closing times for the receipt of different classes or types of cash items and non-cash items.

STATUTORY APPENDIX

SECTION 13 OF THE FEDERAL RESERVE ACT

Section 13 provides in part as follows: ¹

1. Receipt of deposits and collections

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Board of Governors of the Federal Reserve System, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

[U.S.C., title 12, sec. 342.]

* * * * *

SECTION 16 OF THE FEDERAL RESERVE ACT

Section 16 provides in part as follows:

* * * * *

13. Checks and drafts to be received on deposit at par

Every Federal reserve bank shall receive on deposit at par from members banks or from Federal Reserve banks checks and drafts drawn

¹ Paragraph numbers and captions have been added to facilitate reference.

upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board of Governors of the Federal Reserve System shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

[U.S.C., title 12, sec. 360.]

14. Transfer of funds among Federal Reserve banks

The Board of Governors of the Federal Reserve System shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

[U.S.C., title 12, sec. 248(o).]

* * * * *

SECTION 11 OF THE FEDERAL RESERVE ACT

Section 11 provides in part as follows:

Sec. 11. The Board of Governors of the Federal Reserve System shall be authorized and empowered:

* * * * *

10. Rules and regulations

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

[U.S.C., title 12, sec. 248(i).]

* * * * *

SECTION 14 OF THE FEDERAL RESERVE ACT

Section 14 provides in part as follows:

* * * * *

Every Federal reserve bank shall have power:

* * * * *

6. Foreign correspondents and agencies

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Board of Governors of the Federal Reserve System, to open and maintain banking accounts for such foreign correspondents or agencies, or for foreign banks or bankers, or for foreign states as defined in section 25 (b) of this Act. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Board of Governors of the Federal Reserve System, any other Federal reserve bank may, with the consent and approval of the Board of Governors of the Federal Reserve System, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

[U.S.C., title 12, sec. 358.]

* * * * *

SECTION 25(b) OF THE FEDERAL RESERVE ACT

Section 25(b) provides in part as follows:

* * * * *

6. Definitions

For the purposes of this section, * * * (2) the term "foreign state" includes any foreign government or any department, district, province, county, possession, or other similar governmental organization or subdivision of a foreign government, and any agency or instrumentality of any such foreign government or of any such organization or subdivision; (3) the term "central bank" includes any foreign bank or banker authorized to perform any one or more of the functions of a central bank; * * *

[U.S.C., title 12, sec. 632.]

OTHER STATUTORY PROVISIONS

Bretton Woods Agreements Act (22 U.S.C. 286d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

Inter-American Development Bank Act (22 U.S.C. 283d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

International Development Association Act (22 U.S.C. 284d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Association shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

International Finance Corporation Act (22 U.S.C. 282d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Corporation shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

Asian Development Bank Act (22 U.S.C. 285d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**LOANS TO EXECUTIVE OFFICERS
OF MEMBER BANKS**

REGULATION O

(12 CFR 215)

As amended effective March 15, 1968



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.

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REGULATION O

(12 CFR 215)

As amended effective March 15, 1968

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS*

SECTION 215.1—BASIS AND SCOPE

This Part is issued pursuant to sections 11(i) and 22(g) of the Federal Reserve Act, as amended (12 U.S.C. 248(i) and 375a), and relates to extensions of credit by member banks to their executive officers and reports of such indebtedness.

SECTION 215.2—DEFINITIONS

(a) **"Member bank"**. The term "member bank" means any banking institution that is a member of the Federal Reserve System.

(b) **"Executive officer"**. The term "executive officer" means every officer of a member bank who participates or has authority to participate, otherwise than in the capacity of a director, in major policy-making functions of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation.¹ The chairman of the board, the president, every vice president, the cashier, secre-

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 215; cited as 12 CFR 215. The words "this Part", as used herein, mean Regulation O.

¹ The term is not intended to include persons who may have official titles and may exercise a certain measure of discretion in the performance of their duties, including discretion in the making of loans but who do not participate in the determination of major policies of the bank and whose decisions are circumscribed by policy standards fixed by the top management of the bank. For example, the term would not include a manager or assistant manager of a branch of a bank unless he participates or is authorized to participate in major policy-making functions.

tary, and treasurer of a member bank are assumed to be executive officers, unless, by resolution of the board of directors or by the bank's bylaws, any such officer is excluded from participation in major policy-making functions, otherwise than in the capacity of a director of the bank, and he does not actually participate therein.²

(c) **"Extension of credit" and "extend credit"**. The terms "extension of credit" and "extend credit" mean the making of a loan or the extending of credit in any manner whatsoever, and include:

(1) any advance by means of an overdraft, cash item, or otherwise;

(2) the acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange, or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, endorser, guarantor, or surety;

(3) the increase of an existing indebtedness, except on account of accrued interest or on account of taxes, insurance, or other expenses incidental to the existing indebtedness and advanced by the bank for its own protection;

(4) any advance of unearned salary or other unearned compensation for periods in excess of 30 days; and

(5) any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever,

² Such resolutions may be particularly appropriate with respect to some officers of banks with a large number of vice presidents.

by reason of an endorsement on an obligation or otherwise, to pay money or its equivalent.

Such terms, however, do not include:

(i) advances against accrued salary or other accrued compensation, or for the purpose of providing for the payment of authorized travel or other expenses incurred or to be incurred on behalf of the bank;

(ii) the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the carrying of a cash item for or the granting of an overdraft (other than an inadvertent overdraft in a nominal amount that is promptly repaid) to an executive officer;

(iii) the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or similar organization, or through foreclosure on collateral or similar proceeding for the protection of the bank; or

(iv) indebtedness arising by reason of general arrangements under which a bank (a) acquires charge or time credit accounts or (b) makes payments to or on behalf of participants in a bank credit card plan, check credit plan, or similar plan, except that this subdivision (iv) shall not apply to indebtedness of an executive officer to his own bank to the extent that the aggregate amount thereof exceeds \$1,000 or to any such indebtedness to his own bank that involves prior individual clearance or approval by the bank other than for the purpose of determining whether his participation in the arrangement is authorized or whether any dollar limit under the arrangement has been or would be exceeded.

SECTION 215.3—GENERAL PROHIBITIONS

(a) **Extensions of credit to executive officers.** Except as provided in § 215.4, no member bank shall extend credit to any of its own executive officers and no executive officer of a member bank shall borrow from or otherwise become indebted to such bank.

(b) **Extensions of credit to partnerships.** Except as provided in subparagraph (3) of § 215.4(b), no member bank shall extend credit to a partnership

in which one or more executive officers of such bank are partners having either individually or together a majority interest in the partnership and no such partnership shall borrow from or otherwise become indebted to such member bank.

SECTION 215.4—EXCEPTIONS

(a) **Protection of member bank against loss.** This Part shall not apply to the endorsing or guaranteeing for the protection of a member bank of any loan or other asset previously acquired by such bank in good faith or to any indebtedness for the purpose of protecting a member bank against loss or of giving financial assistance to it.

(b) **Particular exceptions.** Subject to the requirements of § 215.5, the provisions of this Part shall not apply:

(1) to any loan not exceeding \$30,000 made by a member bank, with the specific prior approval of its board of directors, to any executive officer of such bank if, at the time the loan is made:

(i) it is secured by a first lien on a dwelling which is owned, or after the making of the loan is to be owned, by the officer solely or jointly with his spouse and used by him as his residence;

(ii) it is made for the purpose of purchasing, constructing, maintaining, or improving such residence; and

(iii) no other such loan by the bank to the officer is outstanding;

(2) to extensions of credit made by a member bank to any executive officer of the bank, not exceeding the aggregate amount of \$10,000 outstanding at any one time, to finance the education of the children of the executive officer; or

(3) to extensions of credit made by a member bank to any executive officer of the bank which are not otherwise specifically authorized under this paragraph (b), not exceeding the aggregate amount of \$5,000 outstanding at any one time. For purposes of this subparagraph, the full amount of any extension of credit authorized hereunder that may be made to a partnership in which one or more of the member bank's executive officers are partners and have either individually or together a majority interest shall be considered to have been extended to each executive officer of the bank who is a member of the partnership.

**SECTION 215.5—REQUIREMENTS FOR
EXTENSIONS OF CREDIT**

Every extension of credit to an executive officer:

(a) shall be promptly reported to the board of directors of the bank;³

(b) shall be one that the bank is authorized to make to borrowers other than its officers;

(c) shall be on terms not more favorable than those afforded other borrowers with similar credit standing who are not associated with the bank;

(d) shall be preceded by submission of a detailed current financial statement of the borrowing officer, which shall include, but not be limited to, all data customarily associated with a personal financial statement including any obligations for which the officer may be personally liable; and

(e) shall be made subject to the condition that it shall, at the option of the bank, become due and payable at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively described in subparagraphs (1), (2), and (3), of § 215.4(b), in an aggregate amount greater than the amount of credit of the same category that could be extended him by the bank of which he is an officer.

**SECTION 215.6—REPORTS BY EXECUTIVE
OFFICERS OF THEIR INDEBTEDNESS TO
OTHER BANKS**

Any executive officer of a member bank who becomes indebted to any other bank or banks on or after July 3, 1967, on account of extensions of credit of any one of the three categories respectively described in subparagraphs (1), (2), and (3) of § 215.4 (b), in an aggregate amount greater than the amount of credit of the same category that could lawfully be extended to him by the bank of which he is an executive officer, shall within 10 days make a written report to the board of directors of the member bank, identifying the lender and stating the date and amount of each such extension of credit, the security therefor, if any, and the purposes for which the proceeds have been or are to be used.

**SECTION 215.7—REPORTS OF MEMBER
BANKS TO FEDERAL SUPERVISORS**

Each member bank shall include with (but not as part of) each report of condition and copy thereof filed pursuant to section 7(a)(3) of the Federal Deposit Insurance Act (12 U.S.C. 1817 (a)(3)) a report of all loans under authority of this Part made by the bank since the date of its previous report of condition.

³ Prior approval by the board of directors of an extension of credit made under § 215.4(b) shall be regarded as compliance with this requirement.

STATUTORY APPENDIX

Subsection (g) of section 22 of the Federal Reserve Act provides as follows:

Sec. 22. * * *

(g)(1) Except as authorized under this subsection, no member bank may extend credit in any manner to any of its own executive officers. No executive officer of any member bank may become indebted to that member bank except by means of an extension of credit which the bank is authorized to make under this subsection. Any extension of credit under this subsection shall be promptly reported to the board of directors of the bank, and may be made only if—

(A) the bank would be authorized to make it to borrowers other than its officers;

(B) it is on terms not more favorable than those afforded other borrowers;

(C) the officer has submitted a detailed current financial statement; and

(D) it is on condition that it shall become due and payable on demand of the bank at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the amount of credit of the same category that could be extended to him by the bank of which he is an officer.

(2) With the specific prior approval of its board of directors, a member bank may make a loan not exceeding \$30,000 to any executive officer of the bank if, at the time the loan is made—

(A) it is secured by a first lien on a dwelling which is expected, after the making of the loan, to be owned by the officer and used by him as his residence, and

(B) no other loan by the bank to the officer under authority of this paragraph is outstanding.

(3) A member bank may make extensions of credit to any executive officer of the bank, not exceeding the aggregate amount of \$10,000 outstanding at any one time, to finance the education of the children of the officer.

(4) A member bank may make extensions of credit not otherwise specifically authorized under

this subsection to any executive officer of the bank not exceeding the aggregate amount of \$5,000 outstanding at any one time.

(5) Except to the extent permitted under paragraph (4), a member bank may not extend credit to a partnership in which one or more of its executive officers are partners having either individually or together a majority interest. For the purposes of paragraph (4), the full amount of any credit so extended shall be considered to have been extended to each officer of the bank who is a member of the partnership.

(6) Whenever an executive officer of a member bank becomes indebted to any bank or banks (other than the one of which he is an officer) on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the aggregate amount of credit of the same category that could lawfully be extended to him by the bank, he shall make a written report to the board of directors of the bank, stating the date and amount of each such extension of credit, the security therefor, and the purposes for which the proceeds have been or are to be used.

(7) This subsection does not prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of the bank any loan or other asset previously acquired by the bank in good faith or from incurring any indebtedness to the bank for the purpose of protecting the bank against loss or giving financial assistance to it.

(8) Each day that any extension of credit in violation of this subsection exists is a continuation of the violation for the purposes of section 8 of the Federal Deposit Insurance Act.

(9) Each member bank shall include with (but not as part of) each report of condition and copy thereof filed under section 7(a)(3) of the Federal Deposit Insurance Act a report of all loans under authority of this subsection made by the bank since its previous report of condition.

(10) The Board of Governors of the Federal Reserve System may prescribe such rules and regulations, including definitions of terms as it deems necessary to effectuate the purposes and to prevent evasions of this subsection.

[U.S.C., title 12, sec. 375a.]

65721
November 24, 1970

To the Addressee:

Enclosed are reprints, in the new size, of--

Regulation I, as amended effective February 1, 1963

Regulation J, as amended effective October 1, 1969

Regulation O, as amended effective March 15, 1968

Regulations I and O replace your small-size printing of those regulations bearing the same dates. Regulation J replaces your small-size printing of that regulation, as revised effective September 1, 1967, and the amendment thereto, effective October 1, 1969.

Circulars Division
Federal Reserve Bank of New York

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**ISSUE AND CANCELLATION OF CAPITAL STOCK
OF FEDERAL RESERVE BANKS**

REGULATION I

(12 CFR 209)

As amended effective February 1, 1963



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.

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REGULATION I

(12 CFR 209)

As amended effective February 1, 1963

ISSUE AND CANCELLATION OF CAPITAL STOCK OF FEDERAL RESERVE BANKS*

SECTION 209.1—NATIONAL BANK IN PROCESS OF ORGANIZATION

Each national bank,¹ while in process of organization,² shall file with the Federal Reserve Bank of its district an application on Form FR 30, and each nonmember State bank converting into a national bank,³ shall file an application on

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 209, cited as 12 CFR 209. The word "this Part", as used herein, mean Regulation I.

¹ Under the provisions of section 19 of the Federal Reserve Act (12 U.S.C. 466), national banks located in a dependency or insular possession or any part of the United States outside of the States of the United States and the District of Columbia are not required to become members of the Federal Reserve System but may, with the consent of the Board, become members of the System. Any such bank desiring to be admitted to the System under the provisions of section 19 should communicate with the Federal Reserve Bank with which it desires to do business.

² A new national bank with no capital or board of directors which is organized by the Federal Deposit Insurance Corporation pursuant to the provisions of section 11(h) of the Federal Deposit Insurance Act (12 U.S.C. 1821(h)), should not apply for stock of the Federal Reserve Bank of its district until it is in process of organization as a national bank with capital pursuant to the provisions of section 11(k) of the Federal Deposit Insurance Act (12 U.S.C. 1821(k)).

³ Whenever a State member bank is converted into a national bank under section 5154 of the Revised Statutes (12 U.S.C. 35), it may continue to hold as a national bank its shares of Federal Reserve Bank stock previously held as a State member bank. If the aggregate amount of its capital and surplus is increased or decreased, the national bank shall file an application on Form 56, as provided in § 209.3, for additional shares of Federal Reserve Bank stock or for cancellation of Federal Reserve

Form 30a, for an amount of capital stock of the Federal Reserve Bank of its district equal to six per cent of the paid-up⁴ capital and surplus of such national bank. If the application is found to be in proper form it will be approved by the Federal Reserve Bank effective if and when the Comptroller of the Currency issues to such bank his certificate of authority to commence business. Upon approval, the applying bank shall thereupon⁵ pay the Federal Reserve Bank of its district one-half of the amount of its subscription and, upon receipt of advice from the Federal Reserve Bank as to the required amount, one-half of one per cent of its paid-up subscription for each month from the period of the last dividend, and upon receipt of the payment for Federal Reserve Bank

Bank stock. The certificate of stock issued in the name of the State member bank shall be surrendered and canceled, and a new certificate will be issued in lieu thereof in the name of the national bank, as provided in § 209.13.

⁴ Subscriptions to the capital stock of the Federal Reserve Bank must be made in an amount at least equal to six per cent of the amount of the capital and surplus of the applying bank which is to be paid in at the time the Comptroller of the Currency authorizes it to commence business. In order to avoid the necessity of making applications for additional stock in the Federal Reserve Bank, as additional instalments of the capital and surplus of the applying bank are paid in, application may be made for stock in the Federal Reserve Bank in an amount equal to six per cent of the authorized capital of the applying bank, plus six per cent of the amount of surplus, if any, which the subscribers to the capital of the applying bank have agreed to pay in.

⁵ Payment may be made, if desired, at any time prior to approval of the application.

stock the Federal Reserve Bank will issue a receipt therefor, place the amount in a suspense account, and notify the Comptroller of the Currency that it has been received. When the Comptroller of the Currency issues his certificate of authority to commence business the Federal Reserve Bank will issue a stock certificate as of the date upon which the bank opens for business.

The remaining half of the subscription of the applying bank will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System.

SECTION 209.2—STATE BANK BECOMING MEMBER

Any State bank, Morris Plan bank, or mutual savings bank, desiring to become a member of the Federal Reserve System shall make application as provided in Part 208 of this chapter (Regulation H) and, when such application has been approved by the Board of Governors of the Federal Reserve System and all applicable requirements have been complied with, the Federal Reserve Bank will issue an appropriate certificate of Federal Reserve Bank stock as provided in § 208.5(b) of this chapter.

SECTION 209.3—INCREASE OR DECREASE OF CAPITAL OR SURPLUS

Whenever any member bank increases or decreases the aggregate amount of its paid-up capital and surplus,⁶ it shall file with the Federal Reserve Bank of its district an application on Form FR 56 for such additional amount or for the cancellation of such amount, as the case may be, of the capital stock of the Federal Reserve Bank of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six per cent of its combined capital and surplus. After

⁶ If a member bank sets up a reserve for dividends payable in common stock, such reserve will be regarded as surplus for the purpose of determining the amount of Federal Reserve Bank stock which the bank is required to hold, provided such reserve is established pursuant to a resolution of the board of directors, will become a part of the permanent capital of the bank, and will not be used for any other purpose than the payment of dividends in common stock.

an application for additional Federal Reserve Bank stock has been approved by the Federal Reserve Bank, the applying member bank shall pay to the Federal Reserve Bank of its district one-half of its additional subscription, plus one-half of one per cent a month from the period of the last dividend on such Federal Reserve Bank stock, whereupon the appropriate certificate of stock will be issued by the Federal Reserve Bank. The remaining half of such additional subscription will be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System. After an application for cancellation of Federal Reserve Bank stock has been approved, the Federal Reserve Bank will accept and cancel the stock which the applying bank is required to surrender, and will pay to the member bank a sum equal to all cash paid subscriptions made on the stock canceled plus one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof.

SECTION 209.4—INCREASE OR DECREASE OF DEPOSITS BY MUTUAL SAVINGS BANK

Whenever, as shown by the last report of condition as of a date preceding January 1 or July 1 of each year, the total deposit liabilities of a mutual savings bank which is a member of the Federal Reserve System have increased or decreased since the last adjustment of its holdings of Federal Reserve Bank stock, the bank shall file with the Federal Reserve Bank of its district an application on Form FR 56a for such additional amount or for the cancellation of such amount, as the case may be, of Federal Reserve Bank stock of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six-tenths of one per cent of its total deposit liabilities as shown by such last report of condition, and Federal Reserve Bank stock will be issued or canceled in the manner described in § 209.3. In the case of any mutual savings bank which is not permitted by the laws under which it was organized to purchase stock in the Federal Reserve Bank and has a deposit with the Federal Reserve Bank in lieu of such subscription, such deposit will be adjusted in the same manner as subscriptions for stock.

SECTION 209.5—MERGER OR CONSOLIDATION

(a) Whenever two or more member banks merge or consolidate and such action results in the merged or consolidated bank acquiring by operation of law ⁷ the Federal Reserve Bank stock owned by the other bank or banks, and which also results in the merged or consolidated bank having an aggregate capital and surplus in excess of, or less than, the aggregate capital and surplus of the merging or consolidating member banks, such merged or consolidated bank shall, as provided in § 209.3, file with the Federal Reserve Bank of its district an application on Form FR 56 for such additional amount, or for the cancellation of such amount, as the case may be, of Federal Reserve Bank stock of its district as may be necessary to make its total subscription to Federal Reserve Bank stock equal to six per cent of its combined capital and surplus. In any such case, the merged or consolidated bank shall surrender to the Federal Reserve Bank the certificates of Federal Reserve Bank stock held by the merged or consolidated bank and a new certificate will be issued as provided in § 209.13(b).

(b) Whenever a member bank merges or consolidates with a nonmember bank, under the charter of the latter bank, an application on Form FR 86a shall be filed with the Federal Reserve

⁷ Section 5 of the Federal Reserve Act provides that "Shares of the capital stock of Federal Reserve Banks owned by member banks shall not be transferred or hypothecated." This provision prevents a transfer of Federal Reserve Bank stock by purchase, but does not prevent a transfer by operation of law. Where one member bank purchases all or a substantial portion of the assets of another member bank, the latter being placed in liquidation, it is necessary for the liquidating bank to surrender its Federal Reserve Bank stock, as provided in § 209.8, and for the purchasing bank, if its capital and surplus is increased or decreased, to adjust its holdings of Federal Reserve Bank stock as provided in § 209.3.

If the assets and obligations of a merging or consolidating member bank are transferred to a merged or consolidated member bank by operation of law, no bank being placed in liquidation, the merged or consolidated bank becomes the owner of the Federal Reserve Bank stock of the merging or consolidating bank as soon as the merger or consolidation takes effect, and a new certificate representing Federal Reserve Bank stock will be issued as provided in § 209.13(b). Mergers or consolidations under the acts of Congress providing for the merger or consolidation of national banking associations (12 U.S.C. 215, 215a) meet all of these conditions.

Bank for cancellation of Federal Reserve Bank stock held by the member bank. Upon approval of such application, the Federal Reserve Bank will cancel such stock as of the date the merger or consolidation takes effect, and will adjust accounts by applying to any indebtedness of the merging or consolidating bank to such Federal Reserve Bank all cash paid subscriptions made on the stock canceled plus one-half of one per cent a month from the period of the last dividend, not to exceed the book value thereof, and the remainder, if any, will be paid to the merged or consolidated bank.

SECTION 209.6—CONVERSION OF NATIONAL BANK

Whenever a national bank converts into a nonmember State bank, an application on Form FR 86b shall be filed with the Federal Reserve Bank for cancellation of Federal Reserve Bank stock held by the national bank. Upon approval of such application, the Federal Reserve Bank will cancel such stock as of the date the conversion takes effect, and will adjust accounts in the manner described in § 209.5(b).

SECTION 209.7—INSOLVENCY

Whenever a member bank is declared insolvent and a receiver ⁸ appointed, the receiver shall, within three months from the date of his appointment, file with the Federal Reserve Bank of the district an application on Form FR 87 for cancellation of Federal Reserve Bank stock held by the insolvent member bank. If the receiver fails to make application within the time specified, the board of directors of the Federal Reserve Bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant the receiver additional time in which to file an application. Upon approval of such application or upon issuance of such order, the Federal Reserve Bank will cancel such stock as of the date of such approval or order and will adjust accounts in the manner described in § 209.5(b).

⁸ The term "receiver" includes any person, commission, or other agency charged by law with the duty of winding up the affairs of the bank.

SECTION 209.8—VOLUNTARY LIQUIDATION

Whenever a member bank goes into voluntary liquidation, as, for example, upon sale of assets to another bank, the liquidating agent or some other person or persons duly authorized by the stockholders or board of directors to act on behalf of the bank shall, within three months from the date of the vote to place the bank in voluntary liquidation, file with the Federal Reserve Bank of the district an application on Form FR 86 for cancellation of Federal Reserve Bank stock held by the liquidating member bank. If such application is not filed within the time specified, the board of directors of the Federal Reserve Bank will either issue an order to cancel such stock, or, if the circumstances warrant it, grant additional time in which to file an application. Upon approval of such application, or upon issuance of such order, the Federal Reserve Bank will cancel such stock as of the date of such approval or order and will adjust accounts between the liquidating member bank and the Federal Reserve Bank in the manner described in § 209.5(b).

SECTION 209.9—OTHER CLOSED NATIONAL BANKS

(a) Whenever a national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes of the United States (12 U.S.C. 181), and for which a receiver has not been appointed, discontinues its banking operations for a period of sixty days, the Federal Reserve Bank will report the facts to the Comptroller of the Currency with a statement of reasons why a receiver should be appointed for the national bank. If such receiver is appointed, the procedure prescribed in § 209.7 for cancellation of Federal Reserve Bank stock held by the national bank shall be followed.

(b) Whenever a national bank has been placed in the hands of a conservator, the procedure prescribed in § 209.7 for cancellation of Federal Reserve Bank stock held by such bank shall be followed; provided a certificate is furnished by the Comptroller of the Currency to the effect that the conservator has been authorized to apply for cancellation of Federal Reserve Bank stock, and that the bank is to be liquidated and is not to be permitted to resume business or to reorganize.

SECTION 209.10—OTHER CLOSED STATE MEMBER BANKS

Whenever a State member bank ceases to exercise banking functions without being placed in liquidation in accordance with the laws of the State in which it is located and without a receiver⁹ appointed for it, and such bank has not within sixty days of the cessation of banking functions applied for withdrawal from membership in the Federal Reserve System as provided in Part 208 of this chapter (Regulation H), the Federal Reserve Bank of the district in which such State member bank is located will furnish the Board of Governors of the Federal Reserve System with full information with reference to the facts involved in the case and with a definite recommendation as to whether the Board should require the State member bank to surrender its Federal Reserve Bank stock and terminate all rights and privileges of membership in the Federal Reserve System. Upon receipt of this advice, if termination of membership of the State member bank appears desirable, the Board will give the member bank notice of the date upon which a hearing will be held to determine whether its membership should be terminated. If, after such hearing, the membership of a State bank is terminated, the Board will direct the Federal Reserve Bank of the Federal Reserve district in which the member bank is located to cancel the Federal Reserve Bank stock as of the date of termination of membership and adjust accounts in the manner described in § 209.5(b).

SECTION 209.11—VOLUNTARY WITHDRAWAL FROM MEMBERSHIP

Any State member bank desiring to withdraw from membership in the Federal Reserve System shall follow the procedure set forth in Part 208 of this chapter (Regulation H), and when all applicable requirements of § 208.10 have been complied with the Federal Reserve Bank will cancel the Federal Reserve Bank stock held by the member bank as of the date of withdrawal from membership and will adjust accounts in the manner described in § 209.5(b).

⁹ The term "receiver" includes any person, commission, or other agency charged by law with the duty of winding up the affairs of the bank.

**SECTION 209.12—INVOLUNTARY
TERMINATION OF MEMBERSHIP**

Any State member bank whose membership has been terminated for failure to comply with the provisions of the Federal Reserve Act or regulations of the Board of Governors of the Federal Reserve System shall surrender its Federal Reserve Bank stock as of the date membership is terminated and accounts will be adjusted in the manner described in § 209.5(b).

**SECTION 209.13—CANCELLATION OF OLD
AND ISSUE OF NEW STOCK CERTIFICATE**

(a) Whenever a member bank changes its name it shall surrender to the Federal Reserve Bank the certificate of Federal Reserve Bank stock which was issued to it under its old name. If the Federal Reserve Bank has or is furnished with proof of the change of name, it will cancel the certificate so surrendered and will issue in lieu thereof to and in the name of the member bank surrendering it a new certificate for the number of shares represented by the certificate so surrendered.

(b) If a member bank has filed an application for an increase or decrease in its holdings of Federal Reserve Bank stock pursuant to the provisions of § 209.3, or has acquired the Federal Reserve Bank stock from another bank by virtue of a merger or consolidation of the kind described in § 209.5(a), it shall surrender the stock certificate previously issued to it and the certificate representing any stock so acquired, and the Fed-

eral Reserve Bank will issue a new certificate for the number of shares represented by the surrendered certificate or certificates decreased by the number of shares canceled or increased by the number of additional shares to be issued.

(c) In order to provide a convenient means for identifying shares of Federal Reserve Bank stock purchased and paid for prior to March 28, 1942, as to which dividends are not subject to Federal taxation, the Federal Reserve Bank will endorse on the back of the stock certificate an appropriate notation setting forth the number of shares represented which were purchased and paid for prior to March 28, 1942, and the number of shares purchased and paid for on or after that date. In lieu of issuing a single certificate, the Federal Reserve Bank may issue two certificates to each member bank holding both classes of stock, one representing stock purchased and paid for prior to March 28, 1942, and the other representing stock purchased and paid for on or after that date, in which case the former will be endorsed to read: "This certificate represents shares of Federal Reserve Bank stock which were purchased and paid for prior to March 28, 1942." No endorsement will be necessary on the latter certificate.

SECTION 209.14—FORMS

All forms referred to in this Part and all such forms as they may be amended from time to time shall be a part of the regulation contained in this Part.

STATUTORY APPENDIX

SECTION 2 OF THE FEDERAL RESERVE ACT

Section 2 provides in part as follows: ¹

1. Establishment of reserve cities and districts

Sec. 2. * * * Every national bank in any State shall, upon commencing business or within ninety days after admission into the Union of the State in which it is located, become a member bank of the Federal Reserve System by subscribing and paying for stock in the Federal Reserve bank of its district in accordance with the provisions of this Act and shall thereupon be an insured bank under the Federal Deposit Insurance Act, and failure to do so shall subject such bank to the penalty provided by the sixth paragraph of this section.

[U. S. C., title 12, sec. 222.]
* * * * *

3. Subscription to stock by national banks

Under regulations to be prescribed by the organization committee, every national banking association in the United States is hereby required, and every eligible bank in the United States and every trust company within the District of Columbia, is hereby authorized to signify in writing, within sixty days after the passage of this Act, its acceptance of the terms and provisions hereof. When the organization committee shall have designated the cities in which Federal reserve banks are to be organized, and fixed the geographical limits of the Federal reserve districts, every national banking association within that district shall be required within thirty days after notice from the organization committee, to subscribe to the capital stock of such Federal reserve bank in a sum equal to six per centum of the paid-up capital stock and surplus of such bank, one-sixth of the subscription to be payable on call of the organization committee or of the Board of Governors of the Federal Reserve System, one-sixth within three months and one-sixth within six months thereafter, and the remainder of the subscription, or any part thereof, shall be subject to call when deemed necessary by the Board of Governors of the Federal Reserve System, said payments to be in gold or gold certificates.

[U. S. C., title 12, sec. 282.]
* * * * *

¹ Paragraph numbers and captions have been added to facilitate reference.

12. Transfer of stock

The Board of Governors of the Federal Reserve System is hereby empowered to adopt and promulgate rules and regulations governing the transfers of said stock.

[U. S. C., title 12, sec. 286.]
* * * * *

SECTION 5 OF THE FEDERAL RESERVE ACT

Section 5 provides as follows:

1. Amount of shares; increase and decrease of capital; surrender and cancellation of stock

Sec. 5. The capital stock of each Federal reserve bank shall be divided into shares of \$100 each. The outstanding capital stock shall be increased from time to time as member banks increase their capital stock and surplus or as additional banks become members, and may be decreased as member banks reduce their capital stock or surplus or cease to be members. Shares of the capital stock of Federal reserve banks owned by member banks shall not be transferred or hypothecated. When a member bank increases its capital stock or surplus, it shall thereupon subscribe for an additional amount of capital stock of the Federal reserve bank of its district equal to six per centum of the said increase, one-half of said subscription to be paid in the manner hereinbefore provided for original subscription, and one-half subject to call of the Board of Governors of the Federal Reserve System. A bank applying for stock in a Federal reserve bank at any time after the organization thereof must subscribe for an amount of the capital stock of the Federal reserve bank equal to six per centum of the paid-up capital stock and surplus of said applicant bank, paying therefor its par value plus one-half of one per centum a month from the period of the last dividend. When a member bank reduces its capital stock or surplus it shall surrender a proportionate amount of its holdings in the capital stock of said Federal Reserve bank. Any member bank which holds capital stock of a Federal Reserve bank in excess of the amount required on the basis of 6 per centum of its paid-up capital stock and surplus shall surrender such excess stock. When a member bank voluntarily liquidates it shall surrender all of its holdings of the capital stock of said Federal Reserve bank and be released from its stock subscription not previously called. In any such case the shares surrendered shall be canceled and the member bank

shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares surrendered and one-half of 1 per centum a month from the period of the last dividend, not to exceed the book value thereof, less any liability of such member bank to the Federal Reserve bank.

[U. S. C., title 12, sec. 287.]

SECTION 6 OF THE FEDERAL RESERVE ACT

Section 6 provides as follows:

1. Insolvency of member banks

Sec. 6. If any member bank shall be declared insolvent and a receiver appointed therefor, the stock held by it in said Federal reserve bank shall be canceled, without impairment of its liability, and all cash-paid subscriptions on said stock, with one-half of 1 per centum per month from the period of last dividend, if earned, not to exceed the book value thereof, shall be first applied to all debts of the insolvent member bank to the Federal reserve bank, and the balance, if any, shall be paid to the receiver of the insolvent bank.

[U. S. C., title 12, sec. 288.]

2. National bank discontinuing banking operations

If any national bank which has not gone into liquidation as provided in section 5220 of the Revised Statutes (United States Code, title 12, section 181) and for which a receiver has not already been appointed for other lawful cause, shall discontinue its banking operations for a period of sixty days the Comptroller of the Currency may, if he deems it advisable, appoint a receiver for such bank. The stock held by the said national bank in the Federal reserve bank of its district shall thereupon be canceled and said national bank shall receive in payment therefor, under regulations to be prescribed by the Board of Governors of the Federal Reserve System, a sum equal to its cash-paid subscriptions on the shares canceled and one-half of 1 per centum a month from the period of the last dividend, if earned, not to exceed the book value thereof, less any liability of such national bank to the Federal reserve bank.

[U. S. C., title 12, sec. 288.]

SECTION 9 OF THE FEDERAL RESERVE ACT

Section 9 provides in part as follows:

1. Applications for membership by State banks

Sec. 9. Any bank incorporated by special law of any State, or organized under the general laws of any State or of the United States, including Morris Plan banks and other incorporated banking institutions engaged in similar business, desiring to become a member of the Federal Reserve System, may make application to the Board of Governors of the Federal reserve system, under such rules and regulations as it may prescribe, for the right to subscribe to the stock of the Federal reserve bank organized within the district in which the applying bank is located. Such application shall be for the same amount of stock that the applying bank would be required to subscribe to as a national bank. For the purposes of membership of any such bank the terms "capital" and "capital stock" shall include the amount of outstanding capital notes and debentures legally issued by the applying bank and purchased by the Reconstruction Finance Corporation. The Board of Governors of the Federal Reserve System, subject to the provisions of this Act and to such conditions as it may prescribe pursuant thereto may permit the applying bank to become a stockholder of such Federal reserve bank.

[U. S. C., title 12, sec. 321.]

5. Payment of subscription

Whenever the Board of Governors of the Federal Reserve System shall permit the applying bank to become a stockholder in the Federal reserve bank of the district its stock subscription shall be payable on call of the Board of Governors of the Federal Reserve System, and stock issued to it shall be held subject to the provisions of this Act.

[U. S. C., title 12, sec. 323.]

9. Forfeiture of membership

If at any time it shall appear to the Board of Governors of the Federal Reserve System that a member bank has failed to comply with the provisions of this section or the regulations of the Board of Governors of the Federal Reserve System made pursuant thereto, or has ceased to exercise banking functions without a receiver or liquidating agent having been appointed therefor, it

shall be within the power of the board after hearing to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership.* * *

[U. S. C., title 12, sec. 327.]

10. Voluntary withdrawal from membership

Any State bank or trust company desiring to withdraw from membership in a Federal reserve bank may do so, after six months' written notice shall have been filed with the Board of Governors of the Federal Reserve System, upon the surrender and cancellation of all of its holdings of capital stock in the Federal reserve bank: *Provided*, That the Board of Governors of the Federal Reserve System, in its discretion and subject to such conditions as it may prescribe, may waive such six months' notice in individual cases and may permit any such State bank or trust company to withdraw from membership in a Federal reserve bank prior to the expiration of six months from the date of the written notice of its intention to withdraw: *Provided, however*, That no Federal reserve bank shall, except under express authority of the Board of Governors of the Federal Reserve System, cancel within the same calendar year more than twenty-five per centum of its capital stock for the purpose of effecting voluntary withdrawals during that year. All such applications shall be dealt with in the order in which they are filed with the board. Whenever a member bank shall surrender its stock holdings in a Federal reserve bank, or shall be ordered to do so by the Board of Governors of the Federal Reserve System, under authority of law, all of its rights and privileges as a member bank shall thereupon cease and determine, and after due provision has been made for any indebtedness due or to become due to the Federal Reserve bank it shall be entitled to a refund of its cash subscription with interest at the rate of one-half of one per centum per month from date of last dividend, if earned, the amount refunded in no event to exceed the book value of the stock at that time, and shall likewise be entitled to repayment of deposits and of any other balance due from the Federal reserve bank.

[U. S. C., title 12, sec. 328.]

* * * * *

16. Admission to membership of mutual savings banks

Any mutual savings bank having no capital

stock (including any other banking institution the capital of which consists of weekly or other time deposits which are segregated from all other deposits and are regarded as capital stock for the purposes of taxation and the declaration of dividends), but having surplus and undivided profits not less than the amount of capital required for the organization of a national bank in the same place, may apply for and be admitted to membership in the Federal Reserve System in the same manner and subject to the same provisions of law as State banks and trust companies, except that any such savings banks shall subscribe for capital stock of the Federal reserve bank in an amount equal to six-tenths of 1 per centum of its total deposit liabilities as shown by the most recent report of examination of such savings bank preceding its admission to membership. Thereafter such subscription shall be adjusted semiannually on the same percentage basis in accordance with rules and regulations prescribed by the Board of Governors of the Federal Reserve System. If any such mutual savings bank applying for membership is not permitted by the laws under which it was organized to purchase stock in a Federal reserve bank, it shall, upon admission to the system, deposit with the Federal reserve bank an amount equal to the amount which it would have been required to pay in on account of a subscription to capital stock. Thereafter such deposit shall be adjusted semiannually in the same manner as subscriptions for stock. Such deposits shall be subject to the same conditions with respect to repayment as amounts paid upon subscriptions to capital stock by other member banks and the Federal reserve bank shall pay interest thereon at the same rate as dividends are actually paid on outstanding shares of stock of such Federal reserve bank. If the laws under which any such savings bank was organized be amended so as to authorize mutual savings banks to subscribe for Federal reserve bank stock, such savings bank shall thereupon subscribe for the appropriate amount of stock in the Federal reserve bank, and the deposit hereinbefore provided for in lieu of payment upon capital stock shall be applied upon such subscription. If the laws under which any such savings bank was organized be not amended at the next session of the legislature following the admission of such savings bank to membership so as to authorize mutual

savings banks to purchase Federal reserve bank stock, or if such laws be so amended and such bank fail within six months thereafter to purchase such stock, all of its rights and privileges as a member bank shall be forfeited and its membership in the Federal Reserve System shall be terminated in the manner prescribed elsewhere in this section with respect to State member banks and trust companies. Each such mutual savings bank shall comply with all the provisions of law appli-

cable to State member banks and trust companies, with the regulations of the Board of Governors of the Federal Reserve System and with the conditions of membership prescribed for such savings bank at the time of admission to membership, except as otherwise hereinbefore provided with respect to capital stock.

[U. S. C., title 12, sec. 333.]

* * * * *

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**COLLECTION OF CHECKS AND OTHER ITEMS
BY FEDERAL RESERVE BANKS**

REGULATION J

(12 CFR 210)

As amended effective October 1, 1969



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises. Copies of such Banks' operating letters that are referred to in this regulation are available upon request to the issuing Bank.

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REGULATION J

(12 CFR 210)

As amended effective October 1, 1969

COLLECTION OF CHECKS AND OTHER ITEMS BY FEDERAL RESERVE BANKS*

SECTION 210.1—AUTHORITY AND SCOPE

(a) Pursuant to the provisions of section 13 of the Federal Reserve Act, as amended (12 U.S.C. § 342), section 16 of the Federal Reserve Act (12 U.S.C. § 248(o); 12 U.S.C. § 360), section 11(i) of the Federal Reserve Act (12 U.S.C. § 248(i)), and other provisions of law, the Board of Governors of the Federal Reserve System has promulgated this Part governing the collection of checks and other cash items and the collection of noncash items by the Federal Reserve Banks.

(b) The Federal Reserve Banks, as depositories and fiscal agents of the United States, handle certain items as cash items or noncash items. To the extent contemplated by regulations issued by, and arrangements made with, the United States Treasury Department and other Government Departments, the handling of such items by the Federal Reserve Banks is governed by the provisions of this Part. The operating letters of the Federal Reserve Banks shall include such information regarding the currently effective provisions of those regulations and arrangements (as well as any similar regulations and arrangements hereafter issued or made) as they shall deem necessary and appropriate for the guidance of banks concerned with the collection or payment of such items.

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 210 cited, as 12 CFR 210. The words "this Part," as used herein, mean Regulation J.

SECTION 210.2—DEFINITIONS

As used in this Part, unless the context otherwise requires:

(a) The term "item" means any instrument for the payment of money, whether negotiable or not, which is payable in a Federal Reserve district,¹ is sent by a sender or a nonbank depositor to a Federal Reserve Bank for handling under this Part, and is collectible in funds acceptable to the Federal Reserve Bank of the district in which the instrument is payable; except that the term does not include any check which cannot be collected at par.²

(b) The term "check" means any draft drawn on a bank and payable on demand.

(c) The term "draft" means any item which is either a "draft" as defined in the Uniform Commercial Code or a "bill of exchange" as defined in the Uniform Negotiable Instruments Law.

(d) The term "bank draft" means any check drawn by one bank on another bank.

(e) The term "sender", in respect of an item, means a member bank, a nonmember clearing

¹ For the purposes of this Part, the Virgin Islands and Puerto Rico shall be deemed to be in or of the Second Federal Reserve District; and Guam shall be deemed to be in or of the Twelfth Federal Reserve District.

² The Board of Governors publishes from time to time a "Federal Reserve Par List," which indicates the banks upon which checks are collectible at par through the Federal Reserve Banks, and publishes a supplement thereto each month to show changes subsequent to the last complete list.

bank, a Federal Reserve Bank, an international organization, or a foreign correspondent.

(f) The term “nonmember clearing bank” means a bank, not a member of the Federal Reserve System, which maintains with a Federal Reserve Bank the balance referred to in the first paragraph of section 13 of the Federal Reserve Act, and any corporation which maintains an account with a Federal Reserve Bank in conformity with the requirements of § 211.7 of Part 211 of this chapter (Regulation K).

(g) The term “international organization” means any international organization for which the Federal Reserve Banks are empowered to act as depositaries or fiscal agents subject to regulation by the Board of Governors of the Federal Reserve System and for which a Federal Reserve Bank has opened and is maintaining an account.

(h) The term “foreign correspondent” means any of the following for which a Federal Reserve Bank has opened and is maintaining an account: A foreign bank or banker, or foreign state as defined in section 25(b) of the Federal Reserve Act (12 U.S.C. § 632), or a foreign correspondent or agency referred to in section 14(e) of that Act (12 U.S.C. § 358).

(i) The term “cash item” means:

(1) Any check other than a check classified as a noncash item in accordance with paragraph (j) of this section; or

(2) Any other item payable on demand and collectible at par which the Federal Reserve Bank of the district in which the item is payable may be willing to accept as a cash item.

(j) The term “noncash item” means any item which the receiving Federal Reserve Bank, in its operating letters, shall have classified as an item requiring special handling and any item normally received by the Federal Reserve Bank as a cash item if such bank decides that special conditions require that it be handled as a noncash item.

(k) The term “paying bank” means:

(1) The bank by which an item is payable and to which it is presented, unless the item is payable or collectible through another bank and is sent to such other bank for payment or collection; or

(2) The bank through which an item is payable or collectible and to which it is sent for payment or collection.

(l) The term “nonbank payor” means any payor of an item, other than a bank.

(m) The term “nonbank depositor” means any department, agency, instrumentality, independent establishment, or officer of the United States, or any corporation other than a sender, which maintains or uses an account with a Federal Reserve Bank. Except as may otherwise be provided by any applicable statutes of the United States or regulations issued or arrangements made thereunder, the provisions of this Part and of the operating letters of the Federal Reserve Banks applicable to a sender are applicable to a nonbank depositor.

(n) The term “State” means any State of the United States, the District of Columbia, or Puerto Rico, or any territory, possession or dependency of the United States.

(o) The term “banking day” means any day during which a bank is open to the public for carrying on substantially all its banking functions.

SECTION 210.3—GENERAL PROVISIONS

In order to afford both to the public and to the banks of the country a direct, expeditious, and economical system for the collection of items and the settlement of balances, each Federal Reserve Bank shall receive and handle cash items and noncash items in accordance with the terms and conditions set forth in this Part; and the provisions of this Part and the operating letters of the Federal Reserve Banks shall be binding upon the sender of a cash item or a noncash item and shall be binding upon each collecting bank, paying bank, and nonbank payor to which the Federal Reserve Bank, or any subsequent collecting bank, presents, sends, or forwards a cash item or a noncash item received by the Federal Reserve Bank.

SECTION 210.4—SENDING OF ITEMS TO FEDERAL RESERVE BANKS

(a) Subject to the provisions of this Part and of the operating letters of the Federal Reserve Banks, any sender (other than a Federal Reserve Bank) may send to the Federal Reserve Bank with which it maintains or uses an account any cash item or noncash item payable in any Federal Reserve district; but, as permitted or required by such Federal Reserve Bank, such sender may send direct to any other Federal Reserve Bank any cash item or noncash item payable within the district of such other Federal Reserve Bank.

(b) With respect to any cash item or noncash item, sent direct by a sender (other than a Federal Reserve Bank) in one district to a Federal Reserve Bank in another district, in accordance with paragraph (a) of this section, the relationships and the rights and liabilities existing between the sender, the Federal Reserve Bank of its district and the Federal Reserve Bank to which the item is sent will be the same, and the provisions of this Part will apply, as though the sender had sent such item to the Federal Reserve Bank of its district and such Federal Reserve had forwarded the item to the other Federal Reserve Bank.

(c) The Federal Reserve Banks shall receive cash items at par.

SECTION 210.5—SENDER'S AGREEMENT

(a) By its action in sending any cash item or noncash item to a Federal Reserve Bank, the sender shall be deemed to authorize the receiving Federal Reserve Bank and any other Federal Reserve Bank or other collecting bank to which such item may be forwarded, to handle such item subject to the provisions of this Part and of the operating letters of the Federal Reserve Banks; to warrant its own authority to give such authority; and to agree that such provisions shall, insofar as they are made applicable thereto, govern the relationships between such sender and the Federal Reserve Banks with respect to the handling of such item and its proceeds.

(b) The sender shall be deemed to warrant to each Federal Reserve Bank handling such item (1) that it has good title to the item or is authorized to obtain payment on behalf of one who has good title, whether or not such warranty is evidenced by its express guaranty of prior indorsements on such item, and (2) such other matters and things as the Federal Reserve Bank shall warrant in respect of such item consistently with paragraph (b) of § 210.6; but the provisions of this paragraph shall not be deemed to constitute a limitation upon the scope or effect of any warranty by a sender arising under the law of any State applicable to it; and such sender shall be deemed to agree to indemnify each Federal Reserve Bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from the failure of such sender to have the authority to make the

warranty and the agreement referred to in paragraph (a) of this section, resulting from any action taken by the Federal Reserve Bank within the scope of its authority in handling such item, or resulting from any warranty or agreement with respect thereto made by the Federal Reserve Bank consistently with paragraph (b) of § 210.6.

(c) Whenever any action or proceeding is brought in any court against a Federal Reserve Bank which has collected an item, based upon the alleged failure of the sender of such item to have the authority to make the warranty and the agreement referred to in paragraph (a) of this section, or upon any action taken by such Federal Reserve Bank within the scope of its authority for the purpose of collecting such item, or upon any warranty or agreement with respect thereto made by such Federal Reserve Bank consistently with paragraph (b) of § 210.6 of this Part, such Federal Reserve Bank may, upon the entry of a final judgment or decree in such action or proceeding, recover from the sender in the manner provided herein the amount of attorneys' fees and other expenses of litigation actually incurred, and, in addition, any amount required to be paid by such Federal Reserve Bank under such judgment or decree, together with interest thereon. Such recovery may be effected by charging the amount thereof to any account of the sender maintained on the books of such Federal Reserve Bank (or if the sender is another Federal Reserve Bank, by entering a charge therefor against such other Federal Reserve Bank through the Interdistrict Settlement Fund), provided only (1) that such Federal Reserve Bank shall have made seasonable demand on the sender in writing to assume the defense of the action or proceeding, and (2) that the sender shall not have made any other provision acceptable to such Federal Reserve Bank for the payment of such amount. A Federal Reserve Bank against which any such charge has been entered through the Interdistrict Settlement Fund may recover from its sender, in any case herein provided, as if the action or proceeding against the Federal Reserve Bank which entered the charge had been brought against it. The failure of any Federal Reserve Bank to avail itself of the remedy provided by this paragraph shall not prejudice the enforcement by it in any other manner of the indemnity agreement referred to in paragraph (b) of this section.

**SECTION 210.6—STATUS AND
WARRANTIES OF FEDERAL RESERVE
BANK**

(a) A Federal Reserve Bank will act only as the agent of the sender in respect of each cash item or noncash item received by it from the sender, but such agency shall terminate not later than the time when the Federal Reserve Bank shall have received payment for the item in actually and finally collected funds and shall have made the proceeds available for withdrawal or other use by the sender. A Federal Reserve Bank will not act as the agent or the subagent of any owner or holder of any such item other than the sender. A Federal Reserve Bank shall not have, nor will it assume, any liability to the sender in respect of any such item and its proceeds except for its own lack of good faith or failure to exercise ordinary care.³

(b) By its action in presenting, or sending for presentment and payment, or forwarding any cash item or any noncash item, a Federal Reserve Bank shall be deemed to warrant to a subsequent collecting bank and to the paying bank and any other payor (1) that it has a good title to the item or is authorized to obtain payment on behalf of one who either has a good title or is authorized to obtain payment on behalf of one who has such title, whether or not such warranty is evidenced by its express guaranty of prior indorsements on such item, and (2) to the extent prescribed by the law of any State applicable either to the Federal Reserve Bank as a collecting bank or to the subsequent collecting bank, that the item has not been materially altered; but otherwise the Federal Reserve Bank shall not have, and shall not be deemed to assume, any liability (except for its own lack of good faith or failure to exercise ordinary care) to such paying bank or other payor.

³ No Federal Reserve Bank shall be responsible to the sender of any cash item, or any other owner or holder thereof, for any delay resulting from the action taken by the Federal Reserve Bank in presenting, sending, or forwarding the item on the basis of (a) any A.B.A. transit number or routing symbol appearing thereon at the time of its receipt by the Federal Reserve Bank, whether inscribed by magnetic ink or by any other means, and whether or not such transit or routing symbol is consistent with each other form of designation of a paying bank (or nonbank payor) then appearing thereon, or (b) any other form of designation of a paying bank (or nonbank payor) then appearing thereon, whether or not consistent with A.B.A. transit number or routing symbol then appearing thereon.

**SECTION 210.7—PRESENTMENT FOR
PAYMENT**

(a) Any cash item or any noncash item may be presented for payment by a Federal Reserve Bank or a subsequent collecting bank, or may be sent by a Federal Reserve Bank or a subsequent collecting bank for presentment and payment, or may be forwarded by a Federal Reserve Bank to a subsequent collecting bank with authority to present it for payment or to send it for presentment and payment, as provided under applicable rules of State law or otherwise as permitted by this section.

(b) Presentment may be made at a place where the bank by which the item is payable has requested that presentment be made. Presentment of an item payable by a nonbank payor, other than through a paying bank, may be made at a place where the nonbank payor has requested that presentment be made. Presentment may also be made pursuant to any special collection agreement not inconsistent with the terms of this Part, or may be made through a clearing house subject to the rules and practices thereof.

(c) Any cash item or noncash item, payable in the district of the receiving Federal Reserve Bank, may be presented or sent direct to the paying bank, if any; may be sent direct to any place where the bank through which the item is payable has requested that the item be sent; and, when payable by a nonbank payor other than through a paying bank, may be presented direct to the nonbank payor, but documents, securities or other papers accompanying a noncash item may not be delivered to the nonbank payor thereof before payment of the item, unless the sender has specifically authorized such delivery.

(d) Any cash item or noncash item, payable in a Federal Reserve district other than the district of the receiving Federal Reserve Bank, will ordinarily be forwarded to the Federal Reserve Bank of the district in which the item is payable: *Provided, however,* That with the concurrence of the Federal Reserve Bank of the district in which the item is payable, the receiving Federal Reserve Bank may present, send, or forward the item as if it were payable in its own district.

**SECTION 210.8—PRESENTMENT OF
NONCASH ITEMS FOR ACCEPTANCE**

Whenever a noncash item provides that it must be presented for acceptance or is payable else-

where than at the residence or place of business of the drawee, or whenever the date of payment of a noncash item depends upon presentment for acceptance, a Federal Reserve Bank or a subsequent collecting bank to which it has been sent by a Federal Reserve Bank may, if so instructed by the sender, present the item for acceptance in any manner authorized by law; but no Federal Reserve Bank or subsequent collecting bank shall, upon the acceptance of any such item, deliver to the drawee thereof any accompanying documents unless specifically instructed by the sender to do so. Each Federal Reserve Bank shall include in its operating letters a statement of the circumstances under which a sender may send such noncash items to the Federal Reserve Bank for presentment for acceptance, and of the terms and conditions (which shall not be inconsistent with the provisions of this Part) upon which such presentment may be made. Except as herein provided, no Federal Reserve Bank shall have or assume any obligation to present any noncash item for acceptance or to send it for presentment for acceptance.

SECTION 210.9—REMITTANCE AND PAYMENT

(a) A Federal Reserve Bank may require the paying bank or collecting bank to which it has presented, sent, or forwarded any cash item or noncash item pursuant to § 210.7 to pay or remit for such item in cash, but is authorized, in its discretion, to permit such paying bank or collecting bank to authorize or cause payment or remittance therefor to be made by a debit to an account on the books of such Federal Reserve Bank or to pay or remit therefor in any of the following which is in a form acceptable to such Federal Reserve Bank: Bank draft, transfer of funds or bank credit, or any other form of payment or remittance authorized by applicable State law. A Federal Reserve Bank may require the nonbank payor to which it has presented any cash item or noncash item pursuant to § 210.7 to pay therefor in cash, but is authorized, in its discretion, to permit such nonbank payor to pay therefor in any of the following which is in a form acceptable to such Federal Reserve Bank: Cashier's check, certified check, or other bank draft or obligation.

(b) A Federal Reserve Bank shall not be liable for the failure of a collecting bank or pay-

ing bank or nonbank payor to pay or remit for any such cash item or noncash item, nor for any loss resulting from the acceptance of any form of payment or remittance other than cash authorized in paragraph (a) of this section; nor shall any Federal Reserve Bank which acts in good faith and exercises ordinary care be liable for the nonpayment of, or failure to realize upon, any bank draft or other form of payment or remittance which it may accept in accordance with paragraph (a) of this section.

(c) Any bank draft or other form of payment or remittance received by a Federal Reserve Bank in payment of, or in remittance for, any cash item may likewise be handled as a cash item subject to all the applicable terms and conditions of this Part; and any bank draft or other form of remittance or payment received by a Federal Reserve Bank in payment of, or in remittance for, any noncash item may, at the option of the Federal Reserve Bank, be handled either as a cash item or as a noncash item, subject to all the applicable terms and conditions of this Part.

SECTION 210.10—TIME SCHEDULE AND AVAILABILITY OF CREDITS WITH RESPECT TO CASH ITEMS

(a) Each Federal Reserve Bank shall include in its operating letters a time schedule for each of its offices when the amount of any cash item received by it from any sender or sent by any sender to another Federal Reserve office for the account of such Federal Reserve Bank will be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) and become available for withdrawal or other use by the sender. The sender (other than a foreign correspondent) will be given either immediate credit or deferred credit for such amount in accordance with such time schedule. A foreign correspondent will ordinarily be given credit for such amount only when the Federal Reserve Bank has received payment for the item in actually and finally collected funds: *Provided, however,* That the Federal Reserve Bank may in its discretion give immediate or deferred credit for such amount in accordance with such time schedule.

(b) Notwithstanding the provisions of its time schedule, a Federal Reserve Bank may in its discretion refuse at any time to permit the withdrawal or other use of credit given for any cash item for which the Federal Reserve Bank has not

yet received payment in actually and finally collected funds.

SECTION 210.11—AVAILABILITY OF PROCEEDS OF NONCASH ITEMS

(a) Credit will be given for the proceeds of a noncash item when the receiving Federal Reserve Bank has received payment for such item in actually and finally collected funds or advice from another Federal Reserve Bank of such payment to it, and the amount of such item shall not be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) or become available for withdrawal or other use by the sender prior to the receipt of such payment or advice, except to the extent provided in paragraph (c) of this section.

(b) A Federal Reserve Bank shall be deemed to have received payment for a noncash item in actually and finally collected funds as soon as it has received payment therefor in cash or has received any other form of payment or remittance therefor which is, or has become, final and irrevocable.

(c) A Federal Reserve Bank may, prior to the time provided in paragraph (a) of this section, give credit for the proceeds of a noncash item received by it from a sender, subject to payment in actually and finally collected funds, in accordance with a time schedule included in its operating letters, indicating when the proceeds of such noncash items will be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) and become available for withdrawal or other use by the sender.

(d) Notwithstanding paragraph (c) of this section, a Federal Reserve Bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given for any noncash item for which the Federal Reserve Bank has not yet received payment in actually and finally collected funds.

(e) Where a Federal Reserve Bank receives, in payment or remittance for a noncash item, a bank draft or other form of remittance or payment which, in accordance with paragraph (c) of § 210.9, it elects to handle as a noncash item, the proceeds of the noncash item for which the payment or remittance was made shall neither be counted as reserve for the purposes of Part 204 of this chapter (Regulation D) nor become available for withdrawal or other use until such time as the Federal Reserve Bank receives pay-

ment in actually and finally collected funds for such bank draft or other form of remittance or payment, in accordance with the provisions of this section.

SECTION 210.12—RETURN OF CASH ITEMS

(a) A paying bank which receives a cash item from or through a Federal Reserve Bank, otherwise than for immediate payment over the counter, shall, unless it returns such item unpaid before midnight of the banking day of receipt,⁴ either pay or remit therefor on the banking day of receipt, or, if acceptable to the Federal Reserve Bank concerned, authorize or cause payment or remittance therefor to be made by debit to an account on the books of the Federal Reserve Bank not later than the banking day for such Federal Reserve Bank on which any other acceptable form of timely payment or remittance would have been received by the Federal Reserve Bank in the ordinary course: *Provided*, That such paying bank shall have the right to recover any payment or remittance so made if, before it has finally paid the item, it returns the item before midnight of its banking day next following the banking day of receipt or takes such other action to recover such payment or remittance within such time and by such means as may be provided by applicable State law: *And further provided*, That the foregoing provisions shall not extend, nor shall the time herein provided for return be extended by, the time for return of unpaid items fixed by the rules and practices of any clearing house through which the item was presented or fixed by the provisions of any special collection agreement pursuant to which it was presented.

(b) Any paying bank which takes or receives a credit or obtains a refund for the amount of any payment or remittance made by it in respect of a cash item received by it from or through a Federal Reserve Bank shall be deemed (1) to warrant to such Federal Reserve Bank, to a subsequent collecting bank, and to the sender and all prior parties that it took all action necessary to entitle it to recover such payment or remittance

⁴ A cash item received by a paying bank either:

- (1) on a day other than a banking day for it, or
- (2) on a banking day for it, but—
 - (a) after its regular banking hours, or
 - (b) after a "cut-off hour" established by it in accordance with applicable State law, or
 - (c) during afternoon or evening periods when it is open for limited functions only,

shall be deemed to have been received by the bank on its next banking day.

within the time or times limited therefor by the provisions of this Part, by the applicable rules and practices of any clearing house through which the item was presented, by the applicable provisions of any special collection agreement pursuant to which it was presented, and, except as a longer time may be afforded by the provisions of this Part, by applicable State law; and (2) to agree to indemnify such Federal Reserve Bank for any loss or expense sustained (including but not limited to attorneys' fees and expenses of litigation) resulting from its action in giving such credit or making such refund, or in making any charge to, or obtaining any refund from, the sender. No Federal Reserve Bank shall have any responsibility to such paying bank or any subsequent collecting bank or to the sender of the item or any other prior party thereon for determining whether the action hereinabove referred to was timely.

SECTION 210.13—CHARGEBACK OF UNPAID CASH ITEMS AND NONCASH ITEMS

If a Federal Reserve Bank does not receive payment in actually and finally collected funds for any cash item or noncash item for which it gave credit subject to payment in actually and finally collected funds, the amount of such item shall be charged back to the sender, regardless of whether or not the item itself can be returned. In such event, neither the owner or holder of any such item nor the sender shall have the right of recourse upon, interest in, or right of payment from, any reserve balance, clearing account, deposit account, or other funds of the paying bank or of any collecting bank, in the possession of the Federal Reserve Bank. No draft, authorization to charge, or other order, upon any reserve balance, clearing account, deposit account, or other funds in the possession of a Federal Reserve Bank, issued for the purpose of paying or remitting for any cash items or noncash items handled under the terms of this Part, will be paid, acted upon, or honored after receipt by such Federal Reserve Bank of notice of suspension or closing of the bank making the payment or remittance for its own or another's account.

SECTION 210.14—TIMELINESS OF ACTION

If, because of interruption of communication facilities, suspension of payments by another bank, war, emergency conditions or other circum-

stances beyond its control, any bank (including a Federal Reserve Bank) shall be delayed beyond the time limits provided in this Part or the operating letters of the Federal Reserve Banks, or prescribed by the applicable law of any State in taking any action with respect to a cash item or a noncash item, including forwarding such item, presenting it or sending it for presentment and payment, paying or remitting for it, returning it or sending notice of dishonor or nonpayment, or making or providing for any necessary protest, the time of such bank, as limited by this Part or the operating letters of the Federal Reserve Banks, or by the applicable law of any State, for taking or completing the action thereby delayed shall be extended for such time after the cause of the delay ceases to operate as shall be necessary to take or complete the action, provided the bank exercises such diligence as the circumstances require.

SECTION 210.15—EFFECT OF DIRECT PRESENTMENT OF CERTAIN WARRANTS

Whenever a Federal Reserve Bank exercises its option to present direct to the payor any bill, note or warrant issued and payable by any State or any county, district, political subdivision or municipality of any State, such bill, note or warrant being a cash item not payable or collectible through a bank, the provisions of §§ 210.9, 210.12, and 210.13 and the operating letters of the Federal Reserve Banks shall be applicable to the payor as if it were a paying bank, the provisions of § 210.14 shall be applicable to it as if it were a bank, and each day on which the payor shall be open for the regular conduct of its affairs or the accommodation of the public shall be treated as if it were a banking day for it, within the meaning and for the purposes of § 210.12.

SECTION 210.16—OPERATING LETTERS

Each Federal Reserve Bank shall issue operating letters (sometimes referred to as operating circulars or bulletins), not inconsistent with this Part, governing the details of its operations in the handling of cash items and noncash items, and containing such other matters as are required by the provisions of this Part. Such letters may, among other things, classify cash items and noncash items, require separate sorts and letters, and provide different closing times for the receipt of different classes or types of cash items and noncash items.

STATUTORY APPENDIX

SECTION 13 OF THE FEDERAL RESERVE ACT

Section 13 provides in part as follows: ¹

1. Receipt of deposits and collections

Sec. 13. Any Federal reserve bank may receive from any of its member banks, and from the United States, deposits of current funds in lawful money, national-bank notes, Federal reserve notes, or checks, and drafts, payable upon presentation, and also, for collection, maturing notes and bills; or, solely for purposes of exchange or of collection, may receive from other Federal reserve banks deposits of current funds in lawful money, national-bank notes, or checks upon other Federal reserve banks, and checks and drafts, payable upon presentation within its district, and maturing notes and bills payable within its district; or, solely for the purposes of exchange or of collection, may receive from any nonmember bank or trust company deposits of current funds in lawful money, national-bank notes, Federal reserve notes, checks and drafts payable upon presentation, or maturing notes and bills: *Provided*, Such nonmember bank or trust company maintains with the Federal reserve bank of its district a balance sufficient to offset the items in transit held for its account by the Federal reserve bank: *Provided further*, That nothing in this or any other section of this Act shall be construed as prohibiting a member or nonmember bank from making reasonable charges, to be determined and regulated by the Board of Governors of the Federal Reserve System, but in no case to exceed 10 cents per \$100 or fraction thereof, based on the total of checks and drafts presented at any one time, for collection or payment of checks and drafts and remission therefor by exchange or otherwise; but no such charges shall be made against the Federal reserve banks.

[U.S.C., title 12, sec. 342.]

* * * * *

SECTION 16 OF THE FEDERAL RESERVE ACT

Section 16 provides in part as follows:

* * * * *

13. Checks and drafts to be received on deposit at par

Every Federal reserve bank shall receive on deposit at par from members banks or from Federal Reserve banks checks and drafts drawn

¹ Paragraph numbers and captions have been added to facilitate reference.

upon any of its depositors, and when remitted by a Federal reserve bank, checks and drafts drawn by any depositor in any other Federal reserve bank or member bank upon funds to the credit of said depositor in said reserve bank or member bank. Nothing herein contained shall be construed as prohibiting a member bank from charging its actual expense incurred in collecting and remitting funds, or for exchange sold to its patrons. The Board of Governors of the Federal Reserve System shall, by rule, fix the charges to be collected by the member banks from its patrons whose checks are cleared through the Federal reserve bank and the charge which may be imposed for the service of clearing or collection rendered by the Federal reserve bank.

[U.S.C., title 12, sec. 360.]

14. Transfer of funds among Federal Reserve banks

The Board of Governors of the Federal Reserve System shall make and promulgate from time to time regulations governing the transfer of funds and charges therefor among Federal reserve banks and their branches, and may at its discretion exercise the functions of a clearing house for such Federal reserve banks, or may designate a Federal reserve bank to exercise such functions, and may also require each such bank to exercise the functions of a clearing house for its member banks.

[U.S.C., title 12, sec. 248(o).]

* * * * *

SECTION 11 OF THE FEDERAL RESERVE ACT

Section 11 provides in part as follows:

Sec. 11. The Board of Governors of the Federal Reserve System shall be authorized and empowered:

* * * * *

10. Rules and regulations

(i) To require bonds of Federal reserve agents, to make regulations for the safeguarding of all collateral, bonds, Federal reserve notes, money or property of any kind deposited in the hands of such agents, and said board shall perform the duties, functions, or services specified in this Act, and make all rules and regulations necessary to enable said board effectively to perform the same.

[U.S.C., title 12, sec. 248(i).]

* * * * *

SECTION 14 OF THE FEDERAL RESERVE ACT

Section 14 provides in part as follows:

* * * * *

Every Federal reserve bank shall have power:

* * * * *

6. Foreign correspondents and agencies

(e) To establish accounts with other Federal reserve banks for exchange purposes and, with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange, and to buy and sell, with or without its indorsement, through such correspondents or agencies, bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than ninety days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties, and, with the consent of the Board of Governors of the Federal Reserve System, to open and maintain banking accounts for such foreign correspondents or agencies, or for foreign banks or bankers, or for foreign states as defined in section 25 (b) of this Act. Whenever any such account has been opened or agency or correspondent has been appointed by a Federal reserve bank, with the consent of or under the order and direction of the Board of Governors of the Federal Reserve System, any other Federal reserve bank may, with the consent and approval of the Board of Governors of the Federal Reserve System, be permitted to carry on or conduct, through the Federal reserve bank opening such account or appointing such agency or correspondent, any transaction authorized by this section under rules and regulations to be prescribed by the board.

[U.S.C., title 12, sec. 358.]

* * * * *

SECTION 25(b) OF THE FEDERAL RESERVE ACT

Section 25(b) provides in part as follows:

* * * * *

6. Definitions

For the purposes of this section, * * * (2) the term "foreign state" includes any foreign government or any department, district, province, county, possession, or other similar governmental organization or subdivision of a foreign government, and any agency or instrumentality of any such foreign government or of any such organization or subdivision; (3) the term "central bank" includes any foreign bank or banker authorized to perform any one or more of the functions of a central bank; * * *

[U.S.C., title 12, sec. 632.]

OTHER STATUTORY PROVISIONS

Bretton Woods Agreements Act (22 U.S.C. 286d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

Inter-American Development Bank Act (22 U.S.C. 283d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

International Development Association Act (22 U.S.C. 284d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Association shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

International Finance Corporation Act (22 U.S.C. 282d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Corporation shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

Asian Development Bank Act (22 U.S.C. 285d):

SEC. 6. Any Federal Reserve bank which is requested to do so by the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

**LOANS TO EXECUTIVE OFFICERS
OF MEMBER BANKS**

REGULATION O

(12 CFR 215)

As amended effective March 15, 1968



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.

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REGULATION O

(12 CFR 215)

As amended effective March 15, 1968

LOANS TO EXECUTIVE OFFICERS OF MEMBER BANKS*

SECTION 215.1—BASIS AND SCOPE

This Part is issued pursuant to sections 11(i) and 22(g) of the Federal Reserve Act, as amended (12 U.S.C. 248(i) and 375a), and relates to extensions of credit by member banks to their executive officers and reports of such indebtedness.

SECTION 215.2—DEFINITIONS

(a) **"Member bank"**. The term "member bank" means any banking institution that is a member of the Federal Reserve System.

(b) **"Executive officer"**. The term "executive officer" means every officer of a member bank who participates or has authority to participate, otherwise than in the capacity of a director, in major policy-making functions of the bank, regardless of whether he has an official title or whether his title contains a designation of assistant and regardless of whether he is serving without salary or other compensation.¹ The chairman of the board, the president, every vice president, the cashier, secre-

tary, and treasurer of a member bank are assumed to be executive officers, unless, by resolution of the board of directors or by the bank's bylaws, any such officer is excluded from participation in major policy-making functions, otherwise than in the capacity of a director of the bank, and he does not actually participate therein.²

(c) **"Extension of credit" and "extend credit"**. The terms "extension of credit" and "extend credit" mean the making of a loan or the extending of credit in any manner whatsoever, and include:

- (1) any advance by means of an overdraft, cash item, or otherwise;
- (2) the acquisition by discount, purchase, exchange, or otherwise of any note, draft, bill of exchange, or other evidence of indebtedness upon which an executive officer may be liable as maker, drawer, endorser, guarantor, or surety;
- (3) the increase of an existing indebtedness, except on account of accrued interest or on account of taxes, insurance, or other expenses incidental to the existing indebtedness and advanced by the bank for its own protection;
- (4) any advance of unearned salary or other unearned compensation for periods in excess of 30 days; and
- (5) any other transaction as a result of which an executive officer becomes obligated to a bank, directly or indirectly by any means whatsoever,

* This text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 215; cited as 12 CFR 215. The words "this Part", as used herein, mean Regulation O.

¹ The term is not intended to include persons who may have official titles and may exercise a certain measure of discretion in the performance of their duties, including discretion in the making of loans but who do not participate in the determination of major policies of the bank and whose decisions are circumscribed by policy standards fixed by the top management of the bank. For example, the term would not include a manager or assistant manager of a branch of a bank unless he participates or is authorized to participate in major policy-making functions.

² Such resolutions may be particularly appropriate with respect to some officers of banks with a large number of vice presidents.

by reason of an endorsement on an obligation or otherwise, to pay money or its equivalent.

Such terms, however, do not include:

(i) advances against accrued salary or other accrued compensation, or for the purpose of providing for the payment of authorized travel or other expenses incurred or to be incurred on behalf of the bank;

(ii) the acquisition by a bank of any check deposited in or delivered to the bank in the usual course of business unless it results in the carrying of a cash item for or the granting of an overdraft (other than an inadvertent overdraft in a nominal amount that is promptly repaid) to an executive officer;

(iii) the acquisition of any note, draft, bill of exchange, or other evidence of indebtedness, through a merger or consolidation of banks or a similar transaction by which a bank acquires assets and assumes liabilities of another bank or similar organization, or through foreclosure on collateral or similar proceeding for the protection of the bank; or

(iv) indebtedness arising by reason of general arrangements under which a bank (a) acquires charge or time credit accounts or (b) makes payments to or on behalf of participants in a bank credit card plan, check credit plan, or similar plan, except that this subdivision (iv) shall not apply to indebtedness of an executive officer to his own bank to the extent that the aggregate amount thereof exceeds \$1,000 or to any such indebtedness to his own bank that involves prior individual clearance or approval by the bank other than for the purpose of determining whether his participation in the arrangement is authorized or whether any dollar limit under the arrangement has been or would be exceeded.

SECTION 215.3—GENERAL PROHIBITIONS

(a) **Extensions of credit to executive officers.** Except as provided in § 215.4, no member bank shall extend credit to any of its own executive officers and no executive officer of a member bank shall borrow from or otherwise become indebted to such bank.

(b) **Extensions of credit to partnerships.** Except as provided in subparagraph (3) of § 215.4(b), no member bank shall extend credit to a partnership

in which one or more executive officers of such bank are partners having either individually or together a majority interest in the partnership and no such partnership shall borrow from or otherwise become indebted to such member bank.

SECTION 215.4—EXCEPTIONS

(a) **Protection of member bank against loss.** This Part shall not apply to the endorsing or guaranteeing for the protection of a member bank of any loan or other asset previously acquired by such bank in good faith or to any indebtedness for the purpose of protecting a member bank against loss or of giving financial assistance to it.

(b) **Particular exceptions.** Subject to the requirements of § 215.5, the provisions of this Part shall not apply:

(1) to any loan not exceeding \$30,000 made by a member bank, with the specific prior approval of its board of directors, to any executive officer of such bank if, at the time the loan is made:

(i) it is secured by a first lien on a dwelling which is owned, or after the making of the loan is to be owned, by the officer solely or jointly with his spouse and used by him as his residence;

(ii) it is made for the purpose of purchasing, constructing, maintaining, or improving such residence; and

(iii) no other such loan by the bank to the officer is outstanding;

(2) to extensions of credit made by a member bank to any executive officer of the bank, not exceeding the aggregate amount of \$10,000 outstanding at any one time, to finance the education of the children of the executive officer; or

(3) to extensions of credit made by a member bank to any executive officer of the bank which are not otherwise specifically authorized under this paragraph (b), not exceeding the aggregate amount of \$5,000 outstanding at any one time. For purposes of this subparagraph, the full amount of any extension of credit authorized hereunder that may be made to a partnership in which one or more of the member bank's executive officers are partners and have either individually or together a majority interest shall be considered to have been extended to each executive officer of the bank who is a member of the partnership.

**SECTION 215.5—REQUIREMENTS FOR
EXTENSIONS OF CREDIT**

Every extension of credit to an executive officer:

(a) shall be promptly reported to the board of directors of the bank;³

(b) shall be one that the bank is authorized to make to borrowers other than its officers;

(c) shall be on terms not more favorable than those afforded other borrowers with similar credit standing who are not associated with the bank;

(d) shall be preceded by submission of a detailed current financial statement of the borrowing officer, which shall include, but not be limited to, all data customarily associated with a personal financial statement including any obligations for which the officer may be personally liable; and

(e) shall be made subject to the condition that it shall, at the option of the bank, become due and payable at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively described in subparagraphs (1), (2), and (3), of § 215.4(b), in an aggregate amount greater than the amount of credit of the same category that could be extended him by the bank of which he is an officer.

**SECTION 215.6—REPORTS BY EXECUTIVE
OFFICERS OF THEIR INDEBTEDNESS TO
OTHER BANKS**

Any executive officer of a member bank who becomes indebted to any other bank or banks on or after July 3, 1967, on account of extensions of credit of any one of the three categories respectively described in subparagraphs (1), (2), and (3) of § 215.4 (b), in an aggregate amount greater than the amount of credit of the same category that could lawfully be extended to him by the bank of which he is an executive officer, shall within 10 days make a written report to the board of directors of the member bank, identifying the lender and stating the date and amount of each such extension of credit, the security therefor, if any, and the purposes for which the proceeds have been or are to be used.

**SECTION 215.7—REPORTS OF MEMBER
BANKS TO FEDERAL SUPERVISORS**

Each member bank shall include with (but not as part of) each report of condition and copy thereof filed pursuant to section 7(a)(3) of the Federal Deposit Insurance Act (12 U.S.C. 1817 (a)(3)) a report of all loans under authority of this Part made by the bank since the date of its previous report of condition.

³Prior approval by the board of directors of an extension of credit made under § 215.4(b) shall be regarded as compliance with this requirement.

STATUTORY APPENDIX

Subsection (g) of section 22 of the Federal Reserve Act provides as follows:

Sec. 22. * * *

(g)(1) Except as authorized under this subsection, no member bank may extend credit in any manner to any of its own executive officers. No executive officer of any member bank may become indebted to that member bank except by means of an extension of credit which the bank is authorized to make under this subsection. Any extension of credit under this subsection shall be promptly reported to the board of directors of the bank, and may be made only if—

(A) the bank would be authorized to make it to borrowers other than its officers;

(B) it is on terms not more favorable than those afforded other borrowers;

(C) the officer has submitted a detailed current financial statement; and

(D) it is on condition that it shall become due and payable on demand of the bank at any time when the officer is indebted to any other bank or banks on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the amount of credit of the same category that could be extended to him by the bank of which he is an officer.

(2) With the specific prior approval of its board of directors, a member bank may make a loan not exceeding \$30,000 to any executive officer of the bank if, at the time the loan is made—

(A) it is secured by a first lien on a dwelling which is expected, after the making of the loan, to be owned by the officer and used by him as his residence, and

(B) no other loan by the bank to the officer under authority of this paragraph is outstanding.

(3) A member bank may make extensions of credit to any executive officer of the bank, not exceeding the aggregate amount of \$10,000 outstanding at any one time, to finance the education of the children of the officer.

(4) A member bank may make extensions of credit not otherwise specifically authorized under

this subsection to any executive officer of the bank not exceeding the aggregate amount of \$5,000 outstanding at any one time.

(5) Except to the extent permitted under paragraph (4), a member bank may not extend credit to a partnership in which one or more of its executive officers are partners having either individually or together a majority interest. For the purposes of paragraph (4), the full amount of any credit so extended shall be considered to have been extended to each officer of the bank who is a member of the partnership.

(6) Whenever an executive officer of a member bank becomes indebted to any bank or banks (other than the one of which he is an officer) on account of extensions of credit of any one of the three categories respectively referred to in paragraphs (2), (3), and (4) in an aggregate amount greater than the aggregate amount of credit of the same category that could lawfully be extended to him by the bank, he shall make a written report to the board of directors of the bank, stating the date and amount of each such extension of credit, the security therefor, and the purposes for which the proceeds have been or are to be used.

(7) This subsection does not prohibit any executive officer of a member bank from endorsing or guaranteeing for the protection of the bank any loan or other asset previously acquired by the bank in good faith or from incurring any indebtedness to the bank for the purpose of protecting the bank against loss or giving financial assistance to it.

(8) Each day that any extension of credit in violation of this subsection exists is a continuation of the violation for the purposes of section 8 of the Federal Deposit Insurance Act.

(9) Each member bank shall include with (but not as part of) each report of condition and copy thereof filed under section 7(a)(3) of the Federal Deposit Insurance Act a report of all loans under authority of this subsection made by the bank since its previous report of condition.

(10) The Board of Governors of the Federal Reserve System may prescribe such rules and regulations, including definitions of terms as it deems necessary to effectuate the purposes and to prevent evasions of this subsection.

[U.S.C., title 12, sec. 375a.]