FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 7502
November 13, 1974

REGULATION D

Changes in Reserve Requirements

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

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

The Board of Governors of the Federal Reserve System today approved a restructuring of reserve requirements that will help meet the seasonal need for bank reserves over the coming weeks.

The Board's action is also designed to improve the liquidity of the banking system by encouraging member banks to seek longer-term time deposits. This will be done by lowering reserve requirements on longer-term time deposits and increasing reserve requirements on shorter-term time deposits.

The net effect of the overall restructuring — which includes some reduction in reserve requirements on demand deposits over $400 million — will be to release about $750 million in reserves to the banking system.

Normally, the Federal Reserve provides a substantial amount of reserves to accomodate the seasonal expansion in the demand for money and credit that occurs over this period, particularly during the Christmas shopping season. This restructuring will provide part of the needed reserves directly to member banks rather than through open market operations.

Actions taken by the Board will:

1. Reduce from 5 percent to 3 percent the reserve requirement on all time deposits with an initial maturity of four months or longer.

2. Increase from 5 percent to 6 percent the reserve requirement on all time deposits with an initial maturity of less than four months. (The first $5 million of such deposits at each member bank will be subject to a 3 percent reserve requirement).

3. Reduce from 18 percent to 17-1/2 percent the reserve requirement on net demand deposits over $400 million.

4. Remove the remaining marginal reserve requirement of 3 percent on large certificates of deposit issued to mature in less than four months.

All changes will apply to deposits outstanding in the week beginning November 28 and will release reserves in the week beginning December 12. The net reduction in reserves will be distributed among various size banks as shown in the following table:

Size of Bank (*total deposits in million of dollars*)	Net Reduction in Required Reserves
Under 50	$240 million
50 — 100	$135 million
100 — 500	$140 million
500 and over	$245 million

Reserve Requirements on Time Deposits

Reserve requirements on time deposits will be restructured to provide for a higher reserve requirement on shorter-term time deposits and a lower reserve requirement on longer-term time deposits. The following table depicts the new reserve structure:

(Over)

Time and Savings Deposits

Type of Deposit	Ratio
Savings deposits	3
Other Time Deposits:	
30-119 days	
$5 million and under	3
Over $5 million	6
120 days and over	3

This change introduces a maturity breakdown for reserve requirements on "other time deposits" regardless of denomination. Under the system now in effect, member banks are required to maintain a 3 percent reserve requirement on "other time deposits" up to $5 million, and a 5 percent reserve requirement on "other time deposits" of more than $5 million.

Reserve Requirements on Demand Deposits

Reserve requirements will be reduced from 18 percent to 17-1/2 percent on net demand deposits over $400 million. This will offset the increase in required reserves that large banks will experience as a result of changes in the structure of reserve requirements on time deposits.

The reduction will also narrow somewhat the gap now existing in reserve requirements for large banks as shown in the following table:

Net Demand Deposits

Deposits (*in millions of dollars*)	Old Reserve Requirement (*percent*)	New Reserve Requirement (*percent*)
0 — 2	8	8
2 — 10	10-1/2	10-1/2
10 — 100	12-1/2	12-1/2
100 — 400	13-1/2	13-1/2
Over 400	18	17-1/2

Marginal Reserve Requirement

Removal of the remaining marginal reserve requirement of 3 percent affects large certificates of deposit ($100,000 and over) maturing in less than four months. The Board in September removed the marginal reserve requirement on large CD's with an initial maturity of four months or longer.

This action was taken in recognition of the fact that the volume of large CD's has declined in recent weeks and in view of the outdated base period used by banks to compute their marginal reserves.

The elimination of the marginal reserve requirement on large CD's means that nonmember banks that maintained this reserve requirement voluntarily are no longer asked to do so as of the effective date of today's action.

A marginal reserve requirement (the regular 5 percent plus a supplemental 3 percent) was first announced by the Board on May 16, 1973. An additional 3 percent marginal reserve was announced on September 7, 1973, but this was removed by the Board last December. On September 4, 1974, the Board announced removal of the 3 percent marginal reserve requirement on large CD's with an initial maturity of four months or longer. Today's action will result in removal of the remaining marginal reserve requirement.

The marginal reserve requirement applied to increases (beyond the amount outstanding in the week ended May 16, 1973) in the total of (a) time deposits in denominations of $100,000 and over, and (b) bank-related commercial paper and finance bills with a maturity of 30 days or longer. In no case did the supplemental reserve apply to banks whose deposits of this type totaled less than $10 million.

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Reserve requirements on borrowings of Eurodollars by American banks remain at 8 percent. Agencies and branches of foreign banks that are maintaining this reserve requirement voluntarily are not affected by today's action.

A copy of a revised Supplement to Regulation D, "Reserves of Member Banks," of the Board of Governors, reflecting these changes, will be sent to you shortly.

Alfred Hayes,
President.