

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7755]
November 21, 1975]

Waiver of Penalties for Reserve Deficiencies Under Certain Conditions

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

The Board of Governors of the Federal Reserve System has recently adopted the following policy concerning transitional relief from reserve requirements when a nonmember bank joins the Federal Reserve System or in connection with the merger of a nonmember or member bank into an existing member bank:

The Board has been asked to consider a policy of permitting gradual compliance with System reserve requirements through waiver of penalties for reserve deficiencies in connection with the merger of a nonmember bank into an existing member bank or when a nonmember bank joins the Federal Reserve System. The Board has considered this request and has adopted a uniform policy permitting nonmember banks that become member banks to assume their reserve requirements gradually. In addition, the Board believes that transitional relief from increased reserve requirements is also appropriate where a nonmember or member bank is merged into an existing member bank. The Board believes that such transitional relief is appropriate to provide banks with time to permit an orderly adjustment to the abrupt one-time increase in costs associated with maintenance of additional reserves with the System.

The Board has determined that the transitional relief granted should take the form of waiver by Reserve Banks of penalties for deficiencies in reserve requirements on a graduated basis over a 24-month period in accordance with the following schedule:

<i>Succeeding 3-month periods following membership or merger</i>	<i>Percentage of transitional reserve requirement to be waived</i>
1	100
2	95
3	85
4	75
5	60
6	45
7	25
8	5
9	0

The amount of penalty for deficiency in reserve requirements that would be permitted to be waived for a nonmember bank becoming a member or merging with a member would be based upon its transitional reserve requirement (defined as the difference between the average reserve requirement it would have held had it been a member for the previous six months and its average vault cash holdings over that period). As a result, in the first three months the bank is a member, the Federal Reserve Bank would be authorized to waive the penalty resulting from a reserve deficiency equal to 100 per cent of this transitional reserve requirement. During the following 3-month period, the Reserve Bank would waive the penalty resulting from a reserve deficiency equal to 95 per cent of this transitional reserve requirement.

When a member bank merges with another member bank, the reserve requirements of the resulting bank increase more than proportionately because of graduated reserve requirements on net demand deposits. In this case, the transitional reserve requirement would be equal to the difference between the average reserve requirement that would have been assessed over the past six months had the institutions been a single bank and the sum of actual average reserve requirements of each of them over the same period. In this instance, the penalty should be waived in accordance with the same time schedule previously described.

(OVER)

As a result of this policy, a member bank during the transition period would be required to maintain in vault cash or reserve balances the difference between required reserves calculated on the basis of its current deposit liabilities and the amount of the transitional reserve requirement that is waivable. This policy regarding waiver of penalty as a means of providing transitional relief from changes in reserve requirements applicable to banks in the above circumstances does not affect other policies regarding waiver of penalties that Reserve Banks have adopted pursuant to delegated authority.

Questions regarding this matter may be directed to our Bank Regulations Department. Additional copies of this circular will be furnished upon request.

PAUL A. VOLCKER,
President.

The Board of Governors of the Federal Reserve System has approved the following policy regarding the waiver of penalty for member banks during the transition period...

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Percentage of required reserves to be waived	Percentage of required reserves to be waived
100	1
95	2
90	3
85	4
80	5
75	6
70	7
65	8
60	9
55	10
50	11
45	12
40	13
35	14
30	15
25	16
20	17
15	18
10	19
5	20
0	21

The amount of penalty for deposits for deposits in excess of required reserves that would be permitted to be waived for a non-...

When a member bank reports a deficiency in its reserve requirements, the reserve requirements of the banking law...