FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 7905
June 28, 1976

TRANSITIONAL RESERVE REQUIREMENT RELIEF

Extended to *De Novo* Member Banks

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

In November 1975 the Board of Governors of the Federal Reserve System adopted a policy providing transitional relief from the increase in reserve requirements resulting from a bank joining the Federal Reserve System or from a merger of a nonmember or member bank into an existing member bank. The policy, announced in our Circular No. 7755 dated November 21, 1975, was designed to allow these banks to assume gradually the requirements for maintaining additional reserves. The relief is in the form of waiver of penalties that would otherwise be imposed for a certain portion of deficiencies in reserves maintained by these banks, on a declining scale over a two-year period.

This relief has been extended to *de novo* member banks that opened for business on or after June 14, 1976. Waiver of penalties for reserve deficiencies will be granted to such banks, based on a declining percentage of the bank's total required reserves over a two-year period, in accordance with the following schedule:

Successive 3-month periods following opening	*Percentage of required reserves to be waived*
1	60
2	55
3	50
4	45
5	35
6	25
7	15
8	5
9	0

Under this policy, a *de novo* bank with weekly required reserves of $1 million, for example, would be granted waivers of penalty for reserve deficiencies of $600,000 each week during the first three-month period, and $550,000 a week during the second three-month period. In the same way, the allowable waiver of penalty for deficiencies in reserves during subsequent three-month periods would be based upon the declining percentages of required reserves set forth in the schedule.

(Over)

Procedurally, the full amount of the transitional waiver to which the bank is entitled will be added to the bank's maintained balance, and any resulting excess or deficiency will be carried forward to the next computation period to the extent provided in section 204.3 of Regulation D. In this connection, please note that the existing policy of not permitting a member bank to maintain an overdraft position in its reserve account at this Bank will continue, regardless of the reserve position resulting from the transitional relief.

A *de novo* member bank that is established by another bank or by a holding company will be denied waiver of penalty for reserve deficiencies if this Bank determines that the *de novo* bank was established principally to take advantage of the waiver provision. In addition, a bank that is organized merely to facilitate the consummation of a merger will not be considered a *de novo* bank for this purpose.

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Questions regarding this policy may be directed to Thomas J. Campbell (Tel. 212-791-5249) or Nancy Rivera (Tel. No. 212-791-5994) of our Accounting Department.

PAUL A. VOLCKER,
President.