FEDERAL RESERVE BANK
OF NEW YORK
Fiscal Agent of the United States

TAW(016)

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TREASURY TAX AND LOAN DEPOSITARIES

Treasury Policy With Respect to Calls on Tax and Loan Accounts

To All Treasury Tax and Loan Depositaries
in the Second Federal Reserve District:

On October 23, 1976 the Treasury Department issued a statement of policy with respect to calls on tax and loan accounts. Enclosed is a copy of the statement, which is being sent to you at the Treasury's request.

Additional copies of the enclosure are available upon request.

PAUL A. VOLCKER,
President.

TREASURY POLICY
WITH RESPECT TO CALLS ON TAX AND LOAN ACCOUNTS

Current Call Policy

Since October 1974, the Treasury has followed a policy of calling Treasury tax and loan accounts at a rate which roughly equalizes the aggregate earnings value of the average callable tax and loan account balances, and the aggregate value of the compensable services rendered to the Treasury. For this purpose, the value of the services (maintaining tax and loan accounts and issuing and redeeming savings bonds) is taken to be the estimated expenses for all tax and loan depositaries as indicated in the "Report on a Study of Tax and Loan Accounts" published in June 1974.

This call policy has resulted in a sharp reduction in the level of tax and loan account balances and a correspondingly sharp increase in Treasury balances at Federal Reserve Banks.

While the Treasury recognizes that its current "rough-equivalency approach" to compensating banks for services is both an approximate and an aggregate measure which does not precisely relate to the costs and earnings experienced by individual depositaries, it is the best currently feasible.

Proposed Investment Authority

During the past sixteen months, the Treasury has sought legislative authority which would permit the investment of its operating cash in ways that would provide both adequate returns to the Treasury on its temporarily excess cash and adequate returns to banks for compensable services rendered to the Treasury. The proposed legislation would authorize the Treasury to invest in obligations of depositaries maintaining Treasury tax and loan accounts, and in obligations of the United States. While the House of Representatives overwhelmingly passed the Treasury-proposed legislation in December 1975, the Senate failed to pass it because of the attachment of a number of controversial riders which were not germane to the basic legislation.

The Treasury will again seek investment authority during the upcoming 95th Congress. When such legislation is passed, the Treasury expects to invest most of its operating cash in short-term instruments and to make direct fee payments from appropriated funds for compensable services performed on behalf of the Treasury.

Uncollected Funds

Since the Treasury began accelerating its calls on tax and loan accounts, a number of banks have commented that deposits are sometimes called before the bank has collected the checks. In this connection, banks should be aware that in establishing the levels of tax and loan balances for compensatory purposes, the Treasury does not make allowance for uncollected funds. Deposits in tax and loan accounts are callable on demand, in immediately available funds, beginning with the date of deposit by the taxpayer.

Treasury regulations provide that a tax and loan depositary must "accept from a taxpayer cash, a postal money order drawn to the order of the depositary, or a check or draft *drawn on and to* the order of the depositary..." (31 CFR 214.6(a) (1). Depositaries may accept deposits in the form of checks drawn on other banks, but they do so purely on a voluntary basis and may decline to accept such payments. When they elect to accept checks drawn on other banks, depositaries must credit the Treasury tax and loan account on the date of the deposit and absorb for their own account the cost of check collection and float.

Department of the Treasury, Washington, D.C. 20220