

(Third draft)

Regulation No. 7 a.

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FEDERAL RESERVE BOARD.

Washington, D. C., \_\_\_\_\_

Section 19 of the Federal Reserve Act provides in part as follows:

"Demand deposits within the meaning of this Act shall comprise all deposits payable within 30 days, and time deposits shall comprise all deposits payable after 30 days, and all savings accounts and certificates of deposit which are subject to not less than 30 days' notice before payment".

It is not the purpose of the Board to countenance or permit the reduction of reserves to 5% on deposits that are demand deposits, within the meaning of Section 19 of the Federal Reserve Act, upon the theory that they become time deposits by virtue of some blanket provision in the by-laws of a bank, stipulating that in times of emergency 30 days' notice of withdrawal may be required of deposits which are ordinarily subject to check without restriction.

The Board therefore deems it advisable to amplify Regulation No. 7, and to define in greater detail "time deposits", including "savings accounts" and "certificates of deposit", which are subject to not less than 30 days' notice before payment.

TIME DEPOSITS.

The term "time deposits" is interpreted to include such "savings accounts" and "certificates of deposit" as are subject to not less than 30 days' notice before payment, as well as those deposits which can not be checked upon or withdrawn by the depositor in advance of a certain specified time, - in no case less than 30 days - by virtue of a written contract entered into with the depositor at the time the deposit was made, and which are therefore not payable within 30 days. Any agreement, written or oral, entered into by a member bank not to enforce the terms of such contract or any payments,

prior to the agreed date, of checks against a deposit (other than savings accounts and certificates of deposit hereinafter referred to), reported as or treated by a member bank as a time deposit in calculating its reserve, shall be construed as vitiating the contract, not only with respect to such deposit, but as to all deposits of that class; and any member bank reporting as time deposits any deposits on which it does not as a matter of fact, except as hereinafter specified, require not less than 30 days' notice before withdrawal, may be subject to the penalties prescribed by Section 5209 of the Revised Statutes of the United States (See page 62 for Section 5209)

#### SAVINGS ACCOUNTS.

The term "savings accounts" shall be held to include those interest-bearing accounts which are carried with the bank under written agreement on the part of the bank to pay a specific rate of interest, which rate is to be paid to all other depositors having similar accounts, - and where the depositor is required to present his passbook with each check drawn. Where this requirement is strictly observed, savings accounts are herein defined which are subject to not less than 30 days' notice before withdrawal by virtue of written contract entered into with the depositor, may be classed as time deposits although notice of withdrawal is not required in ordinary course of business; but in no case shall savings accounts be held to include any checking accounts where presentation of the passbook with the check at time of payment is not required. In States having statutes limiting the amount that a savings bank may receive from any one depositor, no member bank will be permitted to classify as a savings account, any account showing a balance in excess of such limit, and in no case shall an account showing a balance of more than \$5,000 be held to be a savings account. In the case of State banks and trust companies

located in States whose laws require that funds accruing from savings accounts shall be invested in any particular class of securities, only those accounts whose balances are so invested and handled to comply with the requirements of the State laws shall be held to be savings accounts within the meaning of this Act.

CERTIFICATES OF DEPOSIT.

A "certificate of deposit" is defined as an instrument evidencing the deposit with a bank of a certain specified amount payable to the payee named in the face of the instrument or his order on demand, or on a certain specified date, or after the lapse of a certain specified time after date of the instrument, either with or without interest, an essential feature of the instrument being that the deposit evidenced thereby is not subject to check, but is payable only upon surrender of the certificate properly endorsed. Only such certificates of deposit <sup>which</sup> ~~shall~~ <sup>clearly show</sup> on their face that they are payable at a time not less than 30 days after the date upon which the reserve is calculated shall be deemed to be time deposits within the meaning of this Act.