

REGULATION D, SERIES OF 1927
(Superseding Regulation D of 1924)

RESERVES OF MEMBER BANKS

(As Tentatively Approved by Federal
Reserve Board on June 21, 1927.)

SECTION I. STATUTORY PROVISIONS

Section 19 of the Federal reserve act provides, in part, as follows:

BANK RESERVES

shall
Sec. 19. Demand deposits within the meaning of this act/comprise all de-
posits payable within thirty days, and time deposits shall comprise all
deposits payable after thirty days, all savings accounts and certificates
of deposit which are subject to not less than thirty days' notice before
payment, and all postal savings deposits.

Every bank, banking association, or trust company which is or which be-
comes a member of any Federal reserve bank shall establish and maintain
reserve balances with its Federal reserve bank as follows:

(a) If not in a reserve or central reserve city, as now or hereafter de-
fined, it shall hold and maintain with the Federal reserve bank of its dis-
trict an actual net balance equal to not less than seven per centum of the
aggregate amount of its demand deposits and three per centum of its time
deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold
and maintain with the Federal reserve bank of its district an actual net
balance equal to not less than ten per centum of the aggregate amount of
its demand deposits and three per centum of its time deposits: Provided,
however, That if located in the outlying districts of a reserve city or
in territory added to such a city by the extension of its corporate charter,
it may, upon the affirmative vote of five members of the Federal Reserve
Board, hold and maintain the reserve balances specified in paragraph (a)
hereof.

(c) If in a central reserve city, as now or hereafter defined, it shall
hold and maintain with the Federal reserve bank of its district an actual
net balance equal to not less than thirteen per centum of the aggregate
amount of its demand deposits and three per centum of its time deposits:
Provided, however, That if located in the outlying districts of a central
reserve city or in territory added to such city by the extension of its
corporate charter, it may, upon the affirmative vote of five members of
the Federal Reserve Board, hold and maintain the reserve balances speci-
fied in paragraphs (a) or (b) thereof.

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The required balance carried by a member bank with a Federal reserve
bank may, under the regulations and subject to such penalties as may be
prescribed by the Federal Reserve Board, be checked against and withdrawn
by such member bank for the purpose of meeting existing liabilities: Pro-
vided, however, That no bank shall at any time make new loans or shall

pay any dividends unless and until the total balance required by law is fully restored.

In estimating the balances required by this act, the net difference of amounts due to and from other banks shall be taken as the basis for ascertaining the deposits against which required balances with Federal reserve banks shall be determined.

The various Liberty bond acts (act of April 24, 1917, sec. 7; act of September 24, 1917, sec. 8; act of April 4, 1918, sec. 8) provide, in part, as follows:

That the provisions * * * with reference to the reserves required to be kept by national banking associations and other member banks of the Federal Reserve System, shall not apply to deposits of public moneys by the United States in designated depositories.

SECTION II. DEFINITIONS

(a) Demand deposits. - The term "demand deposits" shall include all deposits which are payable within 30 days except "savings accounts," "time certificates of deposit," and "postal savings deposits," as defined below.

(b) Time deposits. - The term "time deposits" shall include all "time deposits, open accounts," all "savings accounts," all "time certificates of deposit," and all "postal savings deposits," as defined below.

(c) Time deposits, open accounts. - The term "time deposits, open accounts" shall mean deposits not evidenced by certificates of deposit or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, except on a given date, not less than 30 days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than 30 days.

(d) Savings accounts. - The term "savings accounts" shall mean those deposits in respect to which -

(1) The pass book, certificate, or other similar form of receipt delivered ^{to and retained} by the depositor must actually be presented to the bank whenever a withdrawal is made,

(2) The depositor may at any time be required by the bank to give notice of an intended withdrawal not less than 30 days before a withdrawal is made, and

(3) The bank's printed regulations, accepted by the depositor at the time the account is opened, include the above requirements.

Deposits which are permitted to be withdrawn by check or otherwise, without the actual presentation of the pass-book, certificate, or other similar form of receipt whenever a withdrawal is made, shall not be considered "savings accounts" within the meaning of this regulation. The retention of the pass-book, certificate, or other similar form of receipt, or a duplicate of same, by the bank and the presentation of same by the bank to itself is not an "actual presentation" within the meaning of this regulation.

Deposits of one bank in another shall not in any case be considered "savings accounts" within the meaning of this regulation.

(e) Time certificates of deposit. - A "time certificate of deposit" is defined as a written instrument delivered to and retained by the depositor evidencing the deposit with a bank, either with or without interest, of a certain sum specified on the face of the certificate payable in whole or in part to the depositor or on his order -

(1) On a certain date, specified on the certificate, not less than 30 days after the date of the deposit, or

(2) After the lapse of a certain specified time subsequent to the date of the certificate, in no case less than 30 days, or

(3) Upon written notice, which the bank may at its option require to be given a certain specified number of days, not less than 30 days, before the date of repayment, and

(4) In all cases only upon actual presentation of the certificate at each withdrawal for proper indorsement or surrender.

The retention of the certificate, or a duplicate of same, by the bank and the presentation of same by the bank to itself is not an "actual presentation" within the meaning of this regulation.

A certificate of deposit which is originally a time deposit within the meaning of this regulation becomes a demand deposit when its actual maturity becomes less than 30 days.

(f) Postal savings deposits. - The term "postal savings deposits" shall mean deposits of postal savings funds in banks under the terms of the postal savings act, approved June 25, 1910, as amended.

(g) Government deposits. - The term "Government deposits" shall mean deposits of public moneys by the United States in designated depositories.⁷

⁷Deposits made by United States postmasters of Government funds, other than postal savings deposits, received by them in their official capacity, constitute "Government deposits" within the meaning of this regulation and, when made in designated depositories, are exempt from the reserve requirements of section 19. The following classes of deposits, however, are not "Government deposits" within such meaning and are not exempt from reserve requirements:

(1) Deposits of Philippine funds made by the Philippine Government and carried under the title "Treasurer of the Philippine Islands currency reserve fund account."

(2) Deposits of Porto Rican funds made by the Porto Rican Government.

(3) Deposits of Indian funds under the control of the Department of the Interior.

(4) Deposits of States, counties, or municipalities.

(5) Deposits of the United States Shipping Board and the Emergency Fleet Corporation.

SECTION III. COMPUTATION OF RESERVES

(a) Amounts of reserves to be maintained. - Every member bank of the Federal reserve system is required by law to maintain on deposit with the Federal reserve bank of its district an actual net balance equal to 3 per cent of its time deposits plus -

Seven per cent of its demand deposits if not in a reserve or central reserve city.

Ten per cent of its demand deposits if in a reserve city, except that if located in an outlying district⁸ of a reserve city or in territory added to such city by the extension of the city's corporate limits such bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7 per cent reserves against its demand deposits.

Thirteen per cent of its demand deposits if located in a central reserve city, except that if located in an outlying district⁸ of a central reserve city or in territory added to such city by the extension of the city's corporate limits, such bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7 per cent or 10 per cent reserves against its demand deposits.

No reserves are required to be maintained against Government deposits as defined above.

A member bank exercising trust powers need not carry reserves against trust funds which it keeps segregated and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, as permitted to national banks under authority of Section 11(k) of the Federal Reserve Act, a deposit liability thereby arises against which reserves must be carried. In computing reserve requirements, trust funds deposited in a member bank by another bank to the credit of such other bank as trustee or other fiduciary must be classified by the member bank as individual deposits rather than bank deposits.

(b) Deductions allowed in computing reserves. - Member banks in determining the amount against which reserves must be carried may deduct:

⁸The term "outlying district" is construed to mean that portion of a city which is located outside of, and at a considerable distance from, the recognized business and financial center of such city, and includes all suburban districts.

(1) From gross demand deposits, all Government deposits as defined above.

(2) From the amount of balances due to other banks, the amount of balances due from other banks (except Federal reserve banks and foreign banks), including in the amount due to other banks certified, cashiers', and treasurers' checks outstanding, and including in the amount due from other banks out of town items placed in the mail and charged to the account of correspondent banks, items with a Federal reserve bank in process of collection, checks drawn on banks located in the same city, and exchanges for clearing houses.

(c) Availability of checks as reserve. - Checks forwarded to a Federal reserve bank for collection or credit can not be counted as part of the minimum reserve balance to be carried by a member bank with its Federal reserve bank until such time as may be specified in the appropriate time schedule referred to in Section IV of Regulation J. If a member bank draw against checks before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the act, and by this Regulation.

SECTION IV. PENALTIES FOR DEFICIENCIES IN RESERVES

Inasmuch as it is essential that the law in respect to the maintenance by member banks of the required minimum reserve balance shall be strictly complied with, the Federal Reserve Board, under authority vested in it by section 19 of the Federal Reserve Act, hereby prescribes the following rules governing deficiencies in reserves:

1. Deficiencies in reserve balances of all member banks will be computed on the basis of actual not deposit balances, the required reserve balance of each member bank at the close of business each day being based on its net deposit balances at the close of business on the preceding business day;

2. Penalties for such deficiencies will be assessed monthly on the basis of actual daily deficiencies during the preceding month;

3. Such penalties shall be assessed at a basic rate of 2% per annum above the Federal reserve bank discount rate on commercial paper;

4. When a member bank has an actual deficiency in reserves for fifteen or more days in any month, there shall be assessed, in addition to the penalty at the basic rate, a progressive penalty on daily reserve deficiencies, until such member bank has maintained the required reserves every day for a month. Such progressive penalty shall be at the rate of 1% for the first month and shall increase at the rate of 1% for each subsequent month thereafter in which the bank's actual reserves have been deficient for fifteen days or more; provided that the maximum penalty charged shall not exceed 10%;

5. Whenever any member bank is subject to the maximum penalty of 10%, the Federal Reserve Agent shall promptly report the fact to the Federal Reserve Board with a recommendation as to whether or not the Board should:

(a) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(b) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership, pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(c) In either case, to take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.

SECTION V. LOANS AND DIVIDENDS WHILE
RESERVES ARE DEFICIENT

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It is unlawful for any member bank the reserves of which are at any time deficient to make any new loans or pay any dividends unless and until the total reserves required by law are fully restored, and the payment of penalties for deficiencies in reserves does not exempt member banks from this prohibition of law.

The Federal Reserve Agent in each District shall promptly report to the Federal Reserve Board any wilful disregard of this prohibition by member banks in his District and shall in each case recommend whether or not the Board should:

(a) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank under the provisions of Section 2 of the Federal Reserve Act; or

(b) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal reserve bank and to forfeit all rights and privileges of membership pursuant to the provisions of Section 9 of the Federal Reserve Act; or

(c) In either case take such other action as the Federal Reserve Agent may recommend or the Federal Reserve Board may consider advisable.