

FEDERAL RESERVE BOARD

X-6031

WASHINGTON

May 4, 1928.

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

SUBJECT: Revision of Member Bank Reserve Requirements.

Dear Sir:

Under date of April 12, 1928, the Board addressed a letter to all Governors of Federal reserve banks, a copy of which was sent to each Agent, submitting the following topic to be placed on the program for the Governors' Conference.

"Desirability of recommending legislation amending Section 19 of Federal Reserve Act relating to required reserves of member banks and of writing into law a complete definition (along lines of the Board's Regulation D) of what constitutes savings and other time deposits."

This question was discussed at the Governors' Conference and the Governor of your bank will acquaint you with the action taken.

The Board would like to have at your early convenience your views with reference to the proposals outlined in the memorandum prepared by the Chief of the Board's Division of Bank Operations (St. 5420) and the suggested bill prepared by the Board's Counsel which would write into law the changes suggested in the memorandum.

The proposed bill through inadvertence failed to include the provision contained in paragraph one on page three of the memorandum to the effect that,

"(d) no withdrawal in excess of \$500 on any one day shall be made unless the depositor has given notice of such intended withdrawal not less than 30 days before the withdrawal is made."

It will be appreciated if you will change the words "may at its option" appearing in sub-paragraph three on page two of the bill to "must", so that the sub-paragraph will read "After written notice which the bank must require to be given--".

For your information we are enclosing an additional copy of the memorandum and the proposed bill.

Very truly yours,

J. C. Noell,
Assistant Secretary.

TO ALL F.R.AGENTS.

Enclosures:

A BILL

To amend Section 19 of the Federal Reserve Act.

BE IT ENACTED BY THE SENATE AND HOUSE OF REPRESENTATIVES OF THE UNITED STATES OF AMERICA IN CONGRESS ASSEMBLED, That the first paragraph of Section 19 of the Federal Reserve Act, as amended, be further amended and re-enacted to read as follows:

"Bank Reserves."

"Sec. 19. The term 'demand deposits' within the meaning of this act shall include all deposits of public moneys of the United States, all certified checks, cashier's checks, treasurer's checks, demand letters of credit, and travellers' checks outstanding, and all other deposits except 'time deposits' and 'bank deposits' as hereinafter defined.

"The term 'time deposits' within the meaning of this act shall include all 'savings accounts', 'time certificates of deposit', 'postal savings deposits' and 'open account time deposits' as hereinafter defined, except that whenever, by the lapse of time or the giving of notice of an intended withdrawal, savings accounts, time certificates of deposit, and open account time deposits become payable in less than 30 days, such deposits shall be considered demand deposits.

"The term 'savings accounts' shall mean deposits of individuals and religious, charitable or similar corporations, in respect to which-

- (1) A pass book, certificate or other similar form of receipt, delivered to and retained by the depositor or his assignee, must actually be presented to the bank whenever a withdrawal is made;
- (2) The depositor or his assignee may at any time be required by the bank to give notice of an intended withdrawal not less than thirty days before a withdrawal is made; and
- (3) The bank's printed regulations, accepted by the depositor 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 act. The retention of

the pass book, certificate or other similar form of receipt or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank, or by an officer, agent or employee thereof, shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another or a deposit of a business corporation or firm shall not in any case be considered a 'savings account' within the meaning of this act.

"The term 'time certificate of deposit' shall mean a deposit evidenced by 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, more than thirty days after the date of the deposit; or
- (2) After the lapse of a certain time subsequent to the date of the certificate, in no case less than thirty days; or
- (3) After written notice which the bank may at its option require to be given a certain specified number of days, not less than thirty days before the date of repayment; and
- (4) In all cases only upon the actual presentation of the certificate at each withdrawal for proper endorsement or surrender.

"The retention of the certificate, or a duplicate of same, by the bank or by an officer, agent or employee thereof, and the presentation of same by the bank or by an officer, agent or employee thereof shall not be considered an actual presentation within the meaning of this act. A deposit made by one bank in another shall not in any case be considered a 'time certificate of deposit' within the meaning of this act.

"The term 'postal savings deposits' as used in this act shall mean deposits of postal savings funds in banks under the terms of the postal savings act approved June 25, 1919, as amended.

"The term 'open account time deposits' as used in this act shall mean deposits not evidenced by certificates of deposits or savings pass books, in respect to which a written contract is entered into with the depositor at the time the deposit is made providing that neither the whole or any part of such deposit may be

withdrawn, by check or otherwise, except on a given date, more than thirty 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 thirty days. In order for deposits to be classified as 'open account time deposits' the bank in which such deposits are made must actually require such written notice before permitting withdrawals to be made.

"The term 'bank deposits' shall include all deposit balances due to other banks, bankers, and trust companies in the United States and foreign countries.

"Every bank, banking association, and trust company which is or which becomes a member of any Federal reserve bank shall establish and maintain a reserve consisting of an actual net balance with the Federal reserve bank of its district equal to not less than thirteen per centum of the aggregate amount of its bank deposits, three per centum of the aggregate amount of its time deposits, and the following per centum of the aggregate amount of its net demand deposits:

Banks in central reserve cities, 13 per centum;

Banks in reserve cities, 9 per centum; and

Other banks, 7 per centum;

"PROVIDED, HOWEVER, That, upon the affirmative vote of five members of the Federal Reserve Board, any bank located in an outlying district of a central reserve city may be permitted to maintain a reserve balance equal to not less than seven or nine per centum of its net demand deposits, and any bank located in an outlying district of a reserve city may be permitted to maintain a reserve balance equal to not less than seven per centum of its net demand deposits; AND PROVIDED FURTHER, That, in computing the amounts of net demand deposits against which reserves must be maintained, all member banks may deduct from the amount of their gross demand deposits, all balances due to them from other banks (except Federal reserve banks and foreign banks), all cash items deposited by them with Federal reserve banks and other banks in process of collection, all exchanges for the clearing house, and all checks in other banks in the same place.

"The Federal Reserve Board shall have authority to prescribe regulations governing the maintenance of the reserves required by this section and further defining the various classes of deposits herein mentioned.

"No member bank shall keep on deposit with any State bank or trust company which is not a member bank a sum in excess of ten per centum of its own paid-up capital and surplus. No member bank shall act as the medium or agent of a nonmember bank in applying for or receiving discounts from a Federal reserve bank under the provisions of this Act, except by permission of the Federal Reserve Board.

"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: PROVIDED, 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.

"National banks, or banks organized under local laws, located in Alaska or in a dependency or insular possession or any part of the United States outside the continental United States may remain nonmember banks, and shall in that event maintain reserves and comply with all the conditions now provided by law regulating them; or said banks may, with the consent of the Reserve Board, become member banks of any one of the reserve districts, and shall in that event take stock, maintain reserves, and be subject to all the other provisions of this Act."