

FEDERAL RESERVE BOARD

WASHINGTON

X-7878

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

April 30, 1934.

SUBJECT: Administration of Requirements of
Regulation Q with Respect to Savings
Deposits.

Dear Sir:

For your confidential information only, there is inclosed herewith a copy of a letter which the Federal Reserve Board has addressed to the Comptroller of the Currency in response to a request from him for rules which may be given to examiners as a guide to them in determining whether the requirement of Regulation Q that savings deposits consist of funds accumulated for bona fide thrift purposes is being complied with. It is not intended that the views expressed in the inclosed letter should be communicated to member banks or to others, but the letter is submitted to the Federal reserve banks as an aid to them in the performance of their duties in connection with examinations of member banks.

Very truly yours,



Chester Morrill,
Secretary.

Inclosure.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.

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April 28, 1934.

Honorable J. F. T. O'Connor,
Comptroller of the Currency,
Washington, D. C.

Dear Mr. Comptroller:

Receipt is acknowledged of your letter of March 29, 1934, with reference to the Board's letter of March 27, 1934, regarding the meaning of the word "thrift" as used in the definition of savings deposits contained in the Federal Reserve Board's Regulation Q. You state that your office has advised national bank examiners that they must determine, insofar as possible, whether or not the regulations of the Federal Reserve Board on this subject are being complied with and that the examiners have requested that your office further define for them the phrase "funds accumulated for bona fide thrift purposes" as used in the regulation. Accordingly, you desire that the Board advise you as to any general set of principles or rules which could be given to examiners as a guide to them in the performance of their duties.

It will be observed that Regulation Q relates to three classes of deposits: Deposits payable on demand, time deposits and savings deposits. The payment of interest on deposits payable on demand, directly or indirectly, by any device whatsoever is prohibited. Interest may be paid in accordance with the regulation on time deposits, but no time deposit may be paid before its

Honorable J. F. T. O'Connor

X-7878-a

-2-

maturity. Interest may be paid in accordance with the regulation on savings deposits and savings deposits may, under certain stated conditions, be paid without requiring notice of withdrawal. The primary purpose of the requirement that savings deposits consist of funds accumulated for bona fide thrift purposes is to prevent the payment of interest on funds which should properly be classified as deposits payable on demand and the payment before maturity of funds which should properly be classified as time deposits. Accordingly, the most important consideration in undertaking to determine what are funds accumulated for bona fide thrift purposes is to guard against the use of savings accounts as a means of evading the prohibition against the payment of interest on deposits payable on demand or of the prohibition upon the payment of a time deposit before its maturity. If an examiner has reason to believe that funds have been classified as savings deposits in order to avoid either of these prohibitions he should make diligent inquiry into the nature of the deposit and if not entirely satisfied as to the correctness of the classification should criticize it in his report. In confidential instructions issued by your office to examiners, however, it would seem entirely proper to point out that if the examiner is satisfied that a member bank has acted in good faith in classifying any particular deposit as a savings deposit and has not made such classification in an endeavor to evade either of the prohibitions referred to, he will not be expected to apply the

Honorable J. F. T. O'Connor

X-7878-a

-3-

requirement as to funds accumulated for bona fide thrift purposes in a strict or technical manner; and this is particularly true with reference to accounts consisting of small amounts. If the examiner approaches questions of this kind with these considerations in mind and with an understanding that the requirement that savings deposits consist of funds accumulated for bona fide thrift purposes should not be given a strict and technical interpretation except where it appears that an evasion of the statute or a lack of good faith is involved, it is believed that many of the administrative difficulties with reference to this matter will be avoided.

As stated in its letter of March 27th to Mr. Awalt, the Federal Reserve Board believes that the question whether deposits may be considered funds accumulated for bona fide thrift purposes so as to constitute savings deposits within the meaning of the regulation is one upon which no general rule can be prescribed and each case must necessarily be determined on the basis of its own particular facts. In view of the circumstances set forth in your letter, however, and in order to be as helpful as may be possible to your examiners in this connection, the Federal Reserve Board states herein some of the considerations which it feels may properly enter into a determination of the question whether deposits constitute savings deposits within the meaning of Regulation Q.

Generally speaking and without intending to exclude other classes of deposits, the Federal Reserve Board feels that deposits

Honorable J. F. T. O'Connor

X-7878-a

-4-

which consist of funds in relatively small amounts which are being or have been accumulated by persons of limited financial means may be considered presumptively by the examiners to be funds accumulated for bona fide thrift purposes. Likewise it is believed that the same presumption should obtain with respect to funds which are being or have been accumulated in order to provide for old age or for contingencies which may not be foreseen, such as sickness or accident, and also with respect to funds which are being or have been accumulated in order to provide for anticipated expenditures such as, for example, the purchase of homes, furnishings, etc., and Christmas or vacation expenses, as well as for anticipated obligations falling due within a reasonable time, such as tax liabilities or insurance premiums.

It would seem that deposits of corporations in most cases probably would not consist of funds accumulated for bona fide thrift purposes; but here again no general rule can be laid down. Funds of a business enterprise which are temporarily idle such as surplus funds or funds commonly known as reserve funds would not ordinarily seem to constitute funds accumulated for bona fide thrift purposes. With respect to firms and individuals engaged in business, the nature of the business may be important in determining this question. Funds deposited by one bank in another would not, in the opinion of the Board, constitute funds accumulated for bona fide thrift purposes.

Honorable J. F. T. O'Connor

X-7878-a

-5-

None of the considerations mentioned above is to be considered as conclusive of the question whether funds may be regarded as accumulated for bona fide thrift purposes or as savings deposits and, as indicated, each case must be determined in the light of its particular circumstances. It is hoped, however, that these general statements may be indicative of the classes of deposits which in proper circumstances may constitute savings deposits and that they may be of assistance to your examiners in this connection.

It may be that you will desire to transmit to your examiners a copy of this letter or the substance thereof and the Federal Reserve Board has no objection to such a course of action provided the examiners are instructed that the information contained therein is given to them for their confidential information only.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.