

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-9176

April 12, 1935.

SUBJECT: Retention of Savings Passbooks by  
Member Banks in Certain Cases.

Dear Sir:

In the August 1934 number of the Federal Reserve Bulletin there was published a ruling to the effect that a deposit in a member bank evidenced by a savings passbook retained by such bank may not be classified as a savings deposit for the purpose of determining whether interest may lawfully be paid thereon. The ruling was, in effect, a restatement of the position taken by the Board in 1927 that such a deposit might not properly be classified as a savings account for reserve purposes.

Since the publication of the ruling in question the Board has received a number of inquiries as to the scope of the ruling and requests that member banks be permitted to retain savings passbooks under certain circumstances where it is stated there is no intent to evade the provisions of the law or of the Board's regulations. The situations giving rise to these inquiries may be classified in general as follows.

1. A depositor who is an invalid or lives at a distance from

the bank leaves the passbook with the member bank in order to avoid the necessity of traveling to and from the bank, or the expense and risk of loss incident to sending the passbook to and fro through the mails, each time a withdrawal is made.

2. A depositor traveling for business or pleasure, particularly one engaged in an occupation which requires him to travel extensively and continuously, leaves the passbook with the member bank in order that withdrawals may be made in case of emergency, or in any other case of need.

3. A depositor unable or unwilling to rent a safe deposit box leaves his passbook with the member bank for safekeeping.

4. A member bank makes a loan to a depositor and the passbook is pledged with the bank as security for the loan.

5. A corporation or other employer deducts periodically from the wages of its employees specified sums and remits an amount equal to the aggregate of such sums to the member bank, which credits to the account of each such employee, by making an entry in the passbook which has been retained by the bank, a sum equal to the amount deducted from such employee's wages.

6. A ship captain deducts a certain amount from the pay envelopes of the men employed on the ship and remits such amounts to a member bank for credit to the savings accounts of the respective employees. The passbooks are retained by the bank and it is stated that

a substantial part of the funds thus accumulated is used by the employees during periods in which they are not employed.

7. A member bank acts as agent in the collection of real estate rentals and interest and dividends on stocks and bonds, or for other similar purposes, and retains the passbook in order that entries may be made therein as funds are collected.

8. A member bank acts as trustee and the trust assets consist in part of a savings deposit evidenced by a passbook retained by the bank, as trustee.

Since the receipt of the inquiries on this subject the matter has been the subject of study by the Board but no conclusion as to what, if any, modification may or should be made in the existing rulings has been reached. In this connection, section 323 of H. R. 5357, the proposed Banking Act of 1935, recently introduced in Congress contains a number of proposed amendments to the provisions of law relating to time and savings deposits and the payment of interest thereon by member banks and the Board would be given specific authority to define the term "savings deposits". These provisions, if enacted, will have a material bearing upon questions with regard to the retention of savings deposit passbooks by the banks issuing them. However, without awaiting the possible enactment of such amendments, the Board desires to consider the question whether it is possible under the terms of existing law and whether it is desirable from a practical standpoint to work out a plan under which banks may retain savings passbooks in

exceptional cases if this may be done without in effect abrogating the distinction between savings deposits and checking accounts.

As you know, one of the requirements with respect to savings deposits which has been contained in the Federal Reserve Board's regulations for many years is that the passbook evidencing such a deposit must be presented whenever a withdrawal is made. This requirement is an important safeguard primarily designed to preclude deposits classified as savings deposits from being used as checking accounts and, conversely, to prevent checking accounts from being classified as savings deposits with resulting abuses of the privileges which are accorded to savings deposits. There is, however, no requirement that the passbook be presented when a deposit is made, and deposits may lawfully be accepted by a bank if it so desires whether or not the passbook is presented at such time.

As a basis for further consideration of this matter before reaching a decision with respect thereto, it will be appreciated if you will carefully consider the various types of situations which are enumerated above, in consultation with the executive officers of your bank and with your counsel, and express your opinion to the Board as to the desirability of permitting a member bank to retain the custody of savings passbooks in cases of the kinds above mentioned and, if you should feel that such retention is desirable, as to the manner in which this might be lawfully accomplished under the provisions of the existing statute or under the provisions of the proposed Banking Act of 1935. Please state

-5-

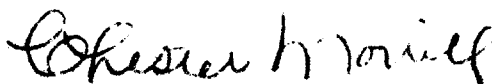
X-9176

your views separately with respect to each of the various classes of cases above enumerated and, in any case in which it may be your opinion that the banks should be permitted to retain the passbooks, state what conditions you think should be imposed in order to preserve the safeguards of the existing regulations and rulings. Please indicate also whether you feel that a decision in the matter should be made as soon as possible or should be deferred pending the disposition in the present session of Congress of the amendments relating to this subject in the proposed Banking Act of 1935.

If there are in operation in your district a large number of mutual savings banks it will be appreciated also if you will ascertain and advise what is the practice of such banks with regard to permitting withdrawals in cases of the kinds above enumerated and particularly whether the presentation of the savings deposit passbook is required as to such withdrawals or whether the passbook is retained by the bank.

You may, if you desire, in your consideration of this subject, consult with officers of member banks in your district or others who you think may be interested or in a position to afford helpful information or suggestions with respect to the matter.

Very truly yours,



Chester Morrill,  
Secretary.

TO CHAIRMEN OF ALL FEDERAL RESERVE BANKS.