

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

March 1, 1939.

Mr. _____, Vice President,
Federal Reserve Bank of _____,
_____, _____.

Dear Mr. _____:

This refers to your letter of January 28, 1939, and previous correspondence regarding the question whether certain repayments on installment loans made by _____ Trust Company, _____, _____, should be included in deposit liabilities in reports for reserve computation purposes and in call reports of condition.

We understand that the Trust Company uses several types of notes in its personal loan department and that these notes fall into two classes for present purposes, namely, those providing for installment payments and those providing for periodic deposits by the borrower in an account which is assigned to the Trust Company as collateral security for the loan and which may be applied to the loan if it is not paid at maturity.

As a matter of convenience to itself, the Trust Company accumulates amounts paid under the class of notes providing for installment payments in an account entitled "Installment payment fund" and makes entries extinguishing the amount of the note and the accumulated payments from the respective accounts only after the full amount of the loan has been paid. Since it appears that under the contract embodied in the note form the periodic installments received by the bank constitute payments which, as between the Trust Company and the borrower, reduce the unpaid balance of the loan as soon as received by the Trust Company, these installments do not constitute deposits and should not be included in the deposit liabilities reported by the Trust Company for reserve computation purposes. Furthermore, in preparing condition reports, even though the installment payments are carried on the Trust Company's books in a separate account and are not endorsed on the note at the time of receipt, they should not be reported in item 1(c) "Repayments on installment loans not applied directly to loans" of schedule F "Time Deposits", but should be deducted from the loans and discounts of the bank and only the net figure should be reported in the statement of assets and in schedule A, item 10.

The other class of notes provides for periodic deposits in an account which is assigned to the Trust Company as collateral security for the repayment of the loan. Under the contract embodied in the note form used in connection with these loans, it appears that the amounts deposited in the assigned account do not reduce the unpaid balance of the loan but instead increase the deposit balance in the account pledged as security. As indicated in the ruling published at page 538 of the September 1931 Federal Reserve Bulletin and in the Board's letter of February 5, 1938 (S-72), these assigned deposits should be included in deposit liabilities in reports for reserve computation purposes. Likewise, they should be included in item 1(c) of schedule F in call reports of condition.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.