

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: June 2, 1934.

FROM R. I. Hoguet, Jr.

TO Mr. Eccles.

RE: S. 3700 & H. R. 9814

S. 3700 and HR. 9814 are companion bills introduced within the last two days to amend Section 19 of the Federal Reserve Act. This Section prohibits the payment of interest on demand deposits. The Bill clarifies the Section so as to give the Federal Reserve Board the power to define the terms "time savings", demand deposits" and "trust funds". It also inserts after the present prohibition against paying any time deposits before maturity a clause reading as follows:

"except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Federal Reserve Board"

To exemptions from the prohibition of payment of interest on demand deposits is added "trust funds". Furthermore, the Bill provides that the prohibition against the payment of interest shall not apply to a deposit which is payable at a branch of a member bank located in a foreign country.

These two bills are somewhat like S. 3651, concerning which I wrote you a memorandum several days ago.



² *The enactment*

1 is in force on the date ~~on which the bank becomes subject to~~
2 ~~the provisions~~ of this paragraph; but no such certificate of
3 deposit or other contract shall be renewed or extended unless
4 it shall be modified to conform to this paragraph, and every
5 member bank shall take such action as may be necessary
6 to conform to this paragraph as soon as possible consistently
7 with its contractual obligations: *Provided, however,* That
8 this paragraph shall not apply to any deposit of such bank
9 which is payable only at an office thereof located ~~outside of~~ *in a foreign country*
10 ~~the States of the United States and the District of Columbia,~~
11 or to any deposit made by a mutual savings bank, and shall
12 not apply to any deposit of public funds made by or on
13 behalf of any State, county, school district, or other subdivi-
14 sion or municipality, ~~or to any deposit of trust funds,~~ if the
15 payment of interest with respect to such deposit of public
16 funds or of trust funds is required by State law.

17 "The Federal Reserve Board shall from time to time
18 limit by regulation the rate of interest which may be paid by
19 member banks on time ~~and savings~~ deposits, and for such
20 purpose may classify time and savings deposits according to
21 maturities, conditions respecting receipt, withdrawal, or
22 repayment, locations of banks or otherwise as it may deem
23 necessary in the public interest, and prescribe different rates
24 for deposits of different classes. ~~Notwithstanding the pro-~~
25 ~~visions of the first paragraph of this section; the Federal~~

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~~1 Reserve Board is authorized to define the terms 'time~~
~~2 deposits', 'savings deposits', 'deposits payable on demand',~~
~~3 and 'trust funds' for the purposes of this paragraph and the~~
~~4 paragraph immediately preceding, to determine what shall~~
~~5 be deemed to be a payment of interest for the purposes of~~
~~6 such paragraphs, and to prescribe such rules and regulations~~
~~7 as it may deem necessary to effectuate the provisions of such~~
~~8 paragraphs in accordance with their purposes and to prevent~~
~~9 evasions of such provisions. No member bank shall pay~~
~~10 any time deposit before its maturity~~ ~~except upon such condi-~~
~~11 tions and in accordance with such rules and regulations as~~
~~12 may be prescribed by the Federal Reserve Board,~~ or waive
~~13 any requirement of notice before payment of any savings~~
~~14 deposit~~ except as to all savings deposits having the same
~~15 requirement~~ *Provided, however, That the provisions of this*
~~16 paragraph shall not apply to any deposit which is payable~~
~~17 only at an office of a member bank located outside of the~~
~~18 States of the United States and the District of Columbia.~~
~~19 Every bank whose deposits are insured under the pro-~~
~~20 visions of section 12B of this Act shall comply with~~
~~21 the provisions of this paragraph and the paragraph immedi-~~
~~22 ately preceding and with the rules and regulations prescribed~~
~~23 by the Federal Reserve Board pursuant thereto. Any director~~
~~24 or officer of any bank who shall have continued to violate the~~
~~25 provisions of this or the preceding paragraph or the rules or~~

~~1 regulations issued pursuant thereto after having been warned~~
~~2 to desist therefrom may be removed from office in accordance~~
~~3 with the provisions of section 30 of the Banking Act of~~
~~4 1933. Provided, That, in the case of a director or officer of~~
~~5 a nonmember bank, the warning and certification provided~~
~~6 for therein shall be given by the Federal Deposit Insurance~~
~~7 Corporation."~~

A BILL

To amend section 19 of the Federal Reserve Act, as amended, and for other purposes.

By Mr. STEAGALL

MAY 31, 1934

Referred to the Committee on Banking and Currency and ordered to be printed