

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, December 15, 1934

**REDUCTION OF MAXIMUM INTEREST RATE
PAYABLE BY MEMBER BANKS ON
TIME AND SAVINGS DEPOSITS**

To the Member Bank Addressed:

The Federal Reserve Board, at Washington, has adopted, effective February 1, 1935, the following amendments to Regulation "Q" governing the payment of interest by member banks on time and savings deposits.

Subsection (c) of Section III is amended to read as follows:

“(c) Maximum Rate of Interest.—

(1) No member bank shall pay interest, accruing after January 31, 1935, on any time deposit or any part thereof at a rate in excess of 2½ per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed, except as otherwise provided in this subsection.

(2) A member bank may pay interest on time deposits in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith prior to December 18, 1934, and in force on that date and which may not legally be terminated or modified by such bank at its option or without liability; but no such certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all such certificates of deposit or other contracts into conformity with the provisions of this regulation.

(3) The rate of interest paid by a member bank upon a time deposit shall not in any case exceed (I) the maximum rate prescribed in paragraph 1 of this subsection, or (II) the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

(4) A member bank may pay interest on a time deposit received during the first five days of any calendar month at the maximum rate prescribed in paragraph 1 of this subsection calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a time deposit under the provisions of this regulation, whichever shall first occur.

(5) A member bank may pay interest on a time deposit which is payable only at an office of such bank located outside of the States of the United States and of the district of Columbia at a rate not exceeding the maximum rate prescribed in paragraph 1 of this subsection or such higher maximum rate as may be prescribed by the Federal Reserve Board from time to time for payment in the locality in which such office is located.”

Subsection (c) of Section V is amended to read as follows:

“(c) Maximum Rate of Interest.—

(1) No member bank shall pay interest, accruing after January 31, 1935, on any savings deposit or any part thereof at a rate in excess of 2½ per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed except as otherwise provided in this subsection.

(2) A member bank may pay interest on savings deposits in accordance with the terms of any contract, which was lawfully entered into in good faith prior to December 18, 1934, and in force on that date and which may not legally be terminated or modified by such bank at its option or without liability; but no such contract shall be renewed or extended unless it be modified to conform to the provisions of this regulation, and every member bank shall take such action as shall be necessary, as soon as possible consistently with its contractual obligations, to bring all such contracts into conformity with the provisions of this regulation.

(3) The rate of interest paid by a member bank upon a savings deposit shall not in any case exceed (I) the maximum rate prescribed in paragraph 1 of this subsection or (II) the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

(4) A member bank may pay interest on a savings deposit received during the first five days of any calendar month at the maximum rate prescribed in paragraph 1 of this subsection calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this regulation, whichever shall first occur.

(5) A member bank may pay interest on a savings deposit which is payable only at an office of such bank located outside of the States of the United States and of the District of Columbia at a rate not exceeding the maximum rate prescribed in paragraph 1 of this subsection or such higher maximum rate as may be prescribed by the Federal Reserve Board from time to time for payment in the locality in which such office is located.”

Footnote 6 of Regulation “Q” is amended to read as follows:

“This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.”

Footnote 9 of Regulation “Q” is amended to read as follows:

“This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals provided that the aggregate amount of such interest is compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.”

It will be noted that the reduction of the maximum rate of interest payable by member banks on time and savings deposits (with the exception noted above in regard to contracts made prior to December 18, 1934) will become effective on February 1, 1935. In the event you are now paying interest on time or savings deposits at a rate in excess of 2½% per annum you may wish to notify your customers (especially savings depositors) promptly of the reduced rate which will become effective on February 1, 1935.

A revised edition of Regulation “Q” is now being printed for distribution, amended as outlined above, and a copy will be sent you as soon as practicable.

Yours very truly,



Chairman of the Board