

**FEDERAL RESERVE BANK
OF DALLAS**

Dallas, Texas, February 11, 1937

**AMENDMENT TO REGULATION Q IN REGARD TO PAYMENT OF
INTEREST ON DEPOSITS**

To the Member Bank Addressed:

The Board of Governors of the Federal Reserve System has adopted the following resolution amending its Regulation Q, "Payment of Interest on Deposits":

"Be it resolved, that, effective February 11, 1937, Regulation Q, entitled 'Payment of Interest on Deposits,' as adopted to become effective January 1, 1936, is amended by striking out subsection (f) of section 1 thereof and by inserting after the first sentence of subsection (a) of section 2 thereof the following sentence:

"Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest."

The following press statement regarding this action has been issued jointly by the Board of Governors and the Federal Deposit Insurance Corporation:

"In view of widespread differences of opinion in the law-making and administrative branches of the Government as to the intent of the law and as a result of further consultations between the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System, their respective regulations relating to the payment of interest on demand deposits have been brought into uniformity by amendments adopted by the Board and by the Corporation.

"The definition of 'interest' has been eliminated from Regulation Q of the Board and from Regulation IV of the Federal Deposit Insurance Corporation and paragraph (a) of section 2 of each regulation has been amended by inserting after the first sentence the following:

'Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.'

"The effect of these amendments is to declare existing law rather than to interpret and apply the law to particular practices. This will permit the general application by each agency of a uniform law and a determination of specific cases based upon the facts involved. It will also permit each agency to determine, with respect to cases coming before it, whether or not any practice involved in any such cases is a 'device' within the meaning of the statute, employed by the banks to evade the prohibition of the law.

"The Board of Governors, in its original definition of the term 'interest' (section 1 (f)), specified that such term should include the payment or absorption of exchange or collection charges which involve out-of-pocket expenses. The present action of the Board of Governors removes this finding or specification from its regulations.

"Henceforth under both regulations the question of what in a particular case is a payment of interest upon a demand deposit or a device to evade the prohibition against the payment of such interest, becomes, for both agencies, a matter of administrative determination under the general law in the light of experience and as specific cases may develop."

Yours very truly,

B. A. MCKINNEY,

President

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM

PAYMENT OF INTEREST ON DEPOSITS



REGULATION Q

This Regulation as printed herewith is in the form
as amended, effective February 11, 1937.



INQUIRIES REGARDING THIS REGULATION

**Any inquiry relating to this regulation should
be addressed to the Federal Reserve bank of
the district in which the inquiry arises.**

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REGULATION Q

As amended, effective February 11, 1937

PAYMENT OF INTEREST ON DEPOSITS

AUTHORITY FOR AND SCOPE OF REGULATION

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are published in the Appendix hereto.

This regulation relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Regulation D.

The provisions of this regulation do not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

SECTION 1. DEFINITIONS

(a) **Demand deposits.**—The term “any deposit which is payable on demand”, hereinafter referred to as a “demand deposit”, includes every deposit which is not a “time deposit” or “savings deposit”, as defined below.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposit” and “time deposits, open account”, as defined below.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than 20 days after the date of the deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,¹ and

¹ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time certificate of deposit” within the meaning of the above definition.

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.**—The term “time deposit, open account” means a deposit, other than a “time certificate of deposit” or a “savings deposit”, with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.**—The term “savings deposit” means a deposit, evidenced by a pass book, consisting of funds (i) deposited to the credit of one or more individuals, or of a corporation, association or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit,⁴ or (ii) in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, and in respect to which deposit—

(1) The depositor is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made;

(2) Withdrawals are permitted in only two ways, either (i) upon presentation of the pass book, through payment to the person presenting the pass book, or (ii) without presentation of the pass book, through payment to the depositor himself but not to any other person whether or not acting for the depositor.⁵

The presentation by any officer, agent or employee of the bank of a pass book or a duplicate thereof retained by the bank or by any of its officers, agents or employees is not a presentation of the pass book within the meaning of this regulation except where the pass

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute “time deposits, open account” even though some of the deposits are made within 30 days from the end of such period.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a “time deposit, open account”, within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable educational, fraternal or other similar purposes may not be classified as savings deposits.

⁵ Presentation of a pass book may be made over the counter or through the mails; and payment may be made over the counter, through the mails or otherwise, subject to the limitations of paragraph (2) above as to the person to whom such payment may be made.

book is held by the bank as a part of an estate of which the bank is a trustee or other fiduciary, or where the pass book is held by the bank as security for a loan. If a pass book is retained by the bank, it may not be delivered to any person other than the depositor for the purpose of enabling such person to present the pass book in order to make a withdrawal, although the bank may deliver the pass book to a duly authorized agent of the depositor for transmittal to the depositor.

Every withdrawal made upon presentation of a pass book shall be entered in the pass book at the time of the withdrawal, and every other withdrawal shall be entered in the pass book as soon as practicable after the withdrawal is made.

SECTION 2. DEMAND DEPOSITS

(a) **Interest prohibited.**—Except as hereinafter provided, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit. Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

(b) **Exceptions.**—The prohibition stated in subsection (a) above does not apply to—

(1) Payment of interest accruing before August 24, 1937, on any deposit made by a savings bank as defined in section 12B of the Federal Reserve Act, as amended,⁶ or by a mutual savings bank;

(2) Payment of interest accruing before August 24, 1937, on any deposit of public funds⁷ made by or on behalf of any State, county, school district, or other subdivision or municipality, or on any deposit of trust funds, if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law when such deposits are made in State banks;

(3) Payment of interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith before June 16, 1933 (or, if the bank became a member of the Federal Reserve System thereafter, before the date upon which it became a member), which was in force on such 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 may be renewed or extended unless it be modified to eliminate any provision for the payment of

⁶ Section 12B(c) (7) of the Federal Reserve Act which defines the term "savings bank" is quoted in the Appendix hereto (page 13).

⁷ Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of "public funds", within the meaning of the above provision.

interest on demand deposits, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to eliminate from any such certificate of deposit or other contract any provision for the payment of interest on demand deposits.

SECTION 3. MAXIMUM RATE OF INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate prescribed from time to time.**—Except in accordance with the provisions of this regulation, no member bank shall pay interest on any time deposit or savings deposit in any manner, directly or indirectly, or by any method, practice, or device whatsoever. No member bank shall pay interest on any time deposit or savings deposit at a rate in excess of such applicable maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time; and any rate or rates which may be so prescribed by the Board will be set forth in supplements to this regulation, which will be issued in advance of the date upon which such rate or rates become effective.

(b) **Modification of contracts to conform to regulation.**—No 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 of its outstanding certificates of deposit or other contracts into conformity with the provisions of this regulation.

(c) **Member banks limited to maximum rate for State banks.**—The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (i) the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section, or (ii) the applicable 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.

(d) **Savings deposits received during first five days of month.**—A member bank may pay interest on a savings deposit received during the first five days of any calendar month at the applicable maximum rate prescribed pursuant to the provisions of subsection (a) of this section 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.

(e) **Continuance of time deposit status.**—A deposit which was a time deposit at the date of deposit continues to be such until maturity although it has become payable within 30 days, and interest at a rate not exceeding that prescribed pursuant to the provisions of sub-

section (a) of this section may be paid until maturity upon such deposit. A time deposit or a savings deposit with respect to which notice of withdrawal has been given continues to be such until the expiration of the period of such notice, and interest may be paid upon such deposit until the expiration of the period of such notice at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of subsection (a) of this section may be paid upon savings deposits with respect to which notice of intended withdrawal has not actually been required or given. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within 30 days from the date on which such amount is deposited in such bank.⁸

(f) **No interest after maturity or expiration of notice.**—After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

SECTION 4. PAYMENT OF TIME DEPOSITS BEFORE MATURITY

(a) **Time deposits payable on a specified date.**—No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in subsection (d) of this section.

(b) **Time deposits payable after a specified period.**—No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in subsection (d) of this section.

(c) **Time deposits payable after a specified notice.**—No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal

⁸ Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of such period.

is made, until such required notice has been given and the specified period thereafter has expired, except as provided in subsection (d) of this section.

(d) **Payment in emergencies.**—In an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency, provided that before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than three months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit three months or longer, and shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than three months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date and maturity as the original deposit.

(e) **Loans upon security of time deposits.**—A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit.

SECTION 5. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice.**—A member bank shall observe the requirements set forth below in requiring notice of intended withdrawal of any savings deposit, or in waiving such notice, or in repaying any savings deposit, or part thereof, without requiring such notice, whether such notice of intended withdrawal is required to be given in each case by the terms of the bank's contract with the depositor or may, under such contract, be required by the bank at any time at its option.

(1) If a member bank waive such notice of intended withdrawal as to any amount or percentage of the savings deposits of any depositor, it shall waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(2) If a member bank pay any amount or percentage of the savings deposits of any depositor, without requiring such notice, it shall, upon request and without requiring such notice, pay the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirement.

(3) If a member bank require such notice before the payment of any amount or percentage of the savings deposits of any depositor, it shall require such notice before the payment of the same amount or percentage of the savings deposits of any other depositor which are subject to the same requirement.

A member bank is not prevented from paying during the next succeeding interest period, without requiring notice of withdrawal, interest on a savings deposit which has accrued during the preceding interest period, provided that it shall, upon request and without requiring such notice, pay in the same manner interest which has accrued during the preceding interest period on the savings deposits of every other depositor.

(b) **Requirements regarding change of practice.**—No member bank shall change its practice with respect to the requiring or waiving of notice of intended withdrawal of savings deposits except after duly recorded action of its board of directors or of its executive committee properly authorized, and no practice in this respect shall be adopted which does not conform to the requirements of paragraphs (1), (2), or (3) of subsection (a) of this section.

(c) **Change of practice for purpose of discrimination.**—No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits shall be made for the purpose of discriminating in favor of or against any particular depositor or depositors.

(d) **Requirements applicable although no interest paid.**—A member bank shall observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits.

(e) **Loans upon security of savings deposits.**—If it is not the practice of a member bank to require notice of intended withdrawal of savings deposits, no restrictions are imposed by this regulation upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of intended withdrawal of savings deposits or any amount or percentage thereof, such bank may make loans to its depositors upon the security of such deposits and, in each such case, the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the savings deposit.

APPENDIX

STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933 and the Banking Act of 1935, provides in part as follows:

Sec. 19. The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: * * *

* * * * *

No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits,

and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

Section 24 of the Federal Reserve Act, as amended by the Act of February 25, 1927 and the Banking Act of 1935, provides with respect to national banking associations in part as follows:

Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed 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 association is located.

Section 12B(c) (7) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides as follows:

(c) As used in this section—

* * * * *

(7) The term "savings bank" means a bank (other than a mutual savings bank) which transacts its ordinary banking business strictly as a savings bank under State laws imposing special requirements on such banks governing the manner of investing their funds and of conducting their business: *Provided*, That the bank maintains, until maturity date or until withdrawn, all deposits made with it (other than funds held by it in a fiduciary capacity) as time savings deposits of the specific term type or of the type where the right is reserved to the bank to require written notice before permitting withdrawal: *Provided further*, That such bank to be considered a savings bank must elect to become subject to regulations of the Corporation with respect to the redeposit of maturing deposits and prohibiting withdrawal of deposits by checking except in cases where such withdrawal is permitted by law on the effective date from specifically designated deposit accounts totaling not more than 15 per centum of the bank's total deposits.