

TRANSFER

FEDERAL RESERVE BANK
OF ST. LOUIS

December 15, 1934.

REGULATION Q—PAYMENT OF INTEREST ON DEPOSITS

To All Member Banks in District No. 8:

There is printed on the following pages a copy of the Federal Reserve Board's Regulation Q, as amended, which relates to the payment of deposits and interest thereon by member banks.

Your attention is especially called to the reduction from 3 to $2\frac{1}{2}$ percent per annum in the maximum rate of interest on time and savings deposits, effective February 1, 1935, and to the exception as to rates provided in contracts made prior to December 18, 1934.

Those member banks which are now paying interest on time or savings deposits in excess of $2\frac{1}{2}$ percent per annum may wish to notify their customers, especially savings depositors, promptly of the reduced rate which will become effective February 1, 1935.

Respectfully,

JOHN S. WOOD,

Federal Reserve Agent.

REGULATION Q, SERIES OF 1934
PAYMENT OF INTEREST ON DEPOSITS

SCOPE OF REGULATION

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 the Federal Reserve Board's Regulation D.

SECTION I. STATUTORY PROVISIONS

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

"Sec. 19. Demand deposits within the meaning of this Act shall comprise all deposits payable within thirty days, and time deposits shall comprise all deposits payable after thirty days, all savings accounts and certificates of deposit which are subject to not less than thirty days' notice before payment, and all postal savings deposits.

* * * * *

"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 heretofore entered into in good faith which is in force on the date of the enactment 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, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply to any deposit made by a mutual savings bank, nor to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

"The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits, and may 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. No member bank shall pay any time deposit before its maturity, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement."

Section 24 of the Federal Reserve Act, as amended by the Act of February 25, 1927, provides in part as follows:

"Such banks 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 banks 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 wherein such national banking association is located."

SECTION II. DEPOSITS PAYABLE ON DEMAND

(a) **Interest prohibited.**—Except as hereinafter stated, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand.

(b) **Exceptions.**—This prohibition does not apply to

1. Any deposit which is payable only at an office of such bank which is located in a foreign country.⁽¹⁾

2. Any deposit made by a mutual savings bank.

3. Any deposit of public funds ⁽²⁾ made by or on behalf of any State, county, school district, or other subdivision or municipality, with respect to which payment of interest is required under State law.

4. 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, and in force on that date and which may not 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 interest on deposits payable on demand; 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 deposits payable on demand.

SECTION III. INTEREST ON TIME DEPOSITS

(a) **Time deposits.**—The term "time deposits", for the purposes of this section, includes "time certificates of deposit", "time deposits, open accounts", and "postal savings deposits", as defined below: ⁽³⁾

1. **Time certificates of deposit.**—The term "time certificate of deposit" means an instrument evidencing the deposit with a bank of a certain sum specified on the face of the instrument payable to bearer or to any specified person or to his order—

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

(ii) At the expiration of a certain specified time subsequent to the date of the instrument, in no case less than thirty days, or

(iii) Upon notice in writing which is actually required ⁽⁴⁾ to be given a certain specified number of days, not less than thirty days, before the date of repayment, and

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

Footnote (1) The Philippine Islands, Puerto Rico, Canal Zone, Hawaii and other territories, dependencies or insular possessions of the United States are not foreign countries, within the meaning of the above provision.

Footnote (2) Deposits of moneys paid into State courts by private parties pending the outcome of litigation are not deposits of "public funds" made by or on behalf of any State, county, school district, or other subdivision or municipality, within the meaning of the above provision.

Footnote (3) Under the provisions of Section 19 of the Federal Reserve Act, time deposits include savings deposits; but, for convenience, savings deposits are dealt with separately in this regulation.

Footnote (4) Under the provisions of Regulation D, a certificate of deposit with respect to which the bank merely reserves the right to require written notice of not less than thirty days may be classified as a time deposit for the purpose of computing reserves; but interest may not be paid on such a certificate of deposit, because it is in fact payable on demand unless prior to such payment the notice of not less than thirty days is actually required, and because the prohibition in the law upon the payment by a member bank of any time deposit before its maturity clearly contemplates that time deposits (other than savings deposits), upon which interest is payable, must have a definite maturity for at least thirty days prior to payment.

2. **Time deposits, open accounts.**—The term "time deposits, open accounts" means deposits, other than "time certificates of deposit", "postal savings deposits", and "savings deposits", in respect to which a written contract has been entered into with the depositor at the time the deposit is made 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 thirty days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days. (5)

3. **Postal savings deposits.**—The term "postal savings deposits" means deposits in banks which consist of postal savings funds deposited under the terms of the Postal Savings Act, approved June 25, 1910, as amended by the Banking Act of 1933, and which comply with the requirements of paragraph 1 or 2 of this subsection.

(b) **Payment of interest.**—Except in accordance with the provisions of this section, no member bank shall pay interest on any time deposit in any manner, directly or indirectly, or by any method, practice or device whatsoever.

(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 $2\frac{1}{2}$ per cent per annum, compounded quarterly, (6) 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 pre-

scribed by the Federal Reserve Board from time to time for payment in the locality in which such office is located.

(d) **Deposits payable within thirty days.**—Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid until maturity upon deposits which were bona fide time deposits at the time of deposit, although they have since become payable within thirty days. On time deposits with respect to which notice of withdrawal shall have been given to the bank interest may be paid until the expiration of the period of such notice at a rate not exceeding that prescribed in subsection (c) of this section. 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 thirty days from the date on which such amount is deposited in such bank.

(e) **No interest after maturity or expiration of notice.**—After the date of maturity of any time deposit, such deposit is a deposit payable on demand, 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, such deposit is a deposit payable on demand and no interest may be paid on such deposit for any period subsequent to the expiration of such notice.

SECTION IV. PAYMENT OF TIME DEPOSITS BEFORE MATURITY.

(a) No member bank shall pay any time deposit except in accordance with the provisions of this section, even though no interest is paid on such deposit. (7)

(b) No member bank shall pay any time deposit, which is payable on a specified date, before such specified date.

(c) 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.

(d) 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 is made, until such required notice has been given and the specified period thereafter has expired.

SECTION V. INTEREST ON SAVINGS DEPOSITS

(a) **Definition.**—The term "savings deposit" means a deposit which consists of funds accumulated for bona fide thrift purposes (8) and in respect to which—

1. The pass book or other form of receipt, evidencing such deposit, must be presented to the bank whenever a withdrawal is made.

2. 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 thirty days before a withdrawal is made, and

3. The above requirements are included in the bank's printed regulations accepted by the depositor or in some other written contract with the depositor.

(b) **Payment of interest.**—Except in accordance with the provisions of this section, no member bank shall pay interest on any savings deposit in any manner, directly or indirectly, or by any method, practice or device whatsoever.

(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 $2\frac{1}{2}$ per cent per annum, compounded quarterly, (9) regardless of the basis upon which such interest may be computed, except as otherwise provided in this subsection.

Footnote (5) A deposit, with respect to which the bank merely reserves the right to require notice of not less than thirty days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

Footnote (6) 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 (7) The making of a loan to the owner of a time deposit in a member bank by such bank, or by any other bank, person, partnership or corporation in accordance with any agreement, arrangement or understanding with such bank, for the purpose of evading any prohibition of section IV above, will, to the extent of such loan, be deemed to be a payment of such deposit in violation of such prohibition; and, in any case in which a loan is made to the owner of a time deposit in a member bank by such bank or in accordance with any agreement, arrangement or understanding with such bank, the member bank must be prepared to show clearly that it was made in good faith and not for the purpose of evading any such prohibition.

Footnote (8) If by reason of the amount of the deposit, the business of the depositor or otherwise, a question arises whether a deposit is properly classified by a bank as a savings deposit, the bank must be prepared to show clearly that it is a deposit consisting of funds accumulated for bona fide thrift purposes and that it otherwise complies with the above definition.

Footnote (9) 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.

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.

(d) **Deposits upon which notice of withdrawal is not given.**—Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid upon savings deposits as defined above with respect to which notice of intended withdrawal has not actually been required or given.

(e) **Deposits upon which notice of withdrawal has been given.**—Interest at a rate not exceeding that prescribed in subsection (c) of this section may be paid upon savings deposits, with respect to which notice of intended withdrawal may have been given to the bank, until the expiration of the period of such notice.

(f) **No interest after expiration of period of notice.**—After the expiration of the period of notice given with respect to the intended withdrawal of any savings deposit, such deposit is a deposit payable on demand and no interest may be paid

on such deposit for any period subsequent to the expiration of such notice, unless 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 requirements applicable to savings deposits, in which event the deposit again constitutes a savings deposit after the date upon which such advice is received by the bank.

SECTION VI. NOTICE OF WITHDRAWAL OF SAVINGS DEPOSITS

(a) A member bank must 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 portion or percentage of the savings deposits of any depositor, it shall waive such notice as to the same portion or percentage of the savings deposits of every other depositor which are subject to the same requirement.

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

(b) 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 paragraph 1, 2, or 3 of subsection (a) of this section.

(c) No change in the practice of a member bank with respect to the requiring or waiving of notice of intended withdrawal of savings deposits subject to the same requirement shall be made until a reasonable time following the last preceding change in the practice with respect to savings deposits subject to the same requirement shall have elapsed.

(d) A member bank must observe the requirements of this section with respect to savings deposits even though no interest be paid on such deposits. ⁽¹⁰⁾

Footnote (10) The making of a loan to the owner of a savings deposit in a member bank by such bank, or by any other bank, person, partnership or corporation in accordance with any agreement, arrangement or understanding with such bank, for the purpose of evading any requirement of this section, will, to the extent of such loan, be deemed to be a payment of such deposit or waiver of notice with respect thereto in violation of such requirement; and, in any case in which a loan is made to the owner of a savings deposit in a member bank by such bank or in accordance with any agreement, arrangement or understanding with such bank, the member bank must be prepared to show clearly that it was made in good faith and not for the purpose of evading any requirement of this section.