

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 1249]  
June 22, 1933]

Interest Payments on Deposits by Member Banks

To all Member Banks in the  
Second Federal Reserve District:

For your information, we quote below from a telegram received from the Federal Reserve Board concerning certain of the provisions of Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, regarding payment of interest on deposits.

(a) Except as indicated below, the law forbids member banks to pay interest on demand deposits after June 16, 1933: but interest accrued on or before that date may be paid.

(b) The law does not prohibit payment of interest in accordance with the terms of any certificate of deposit or other contract previously entered into in good faith and in force on June 16, 1933.

(c) No such certificate of deposit or other contract may be renewed or extended without eliminating provision for payment of interest on demand deposits: and all such contracts must be modified as soon as possible consistently with bank's contractual obligations so as to eliminate payment of interest on demand deposits. If contract is subject to modification or cancellation at option of bank it must be modified as soon as possible.

(d) Prohibition against payment of interest on demand deposits, however, is not applicable to deposits payable only at an office of a member bank located in a foreign country nor 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.

(e) This exemption is not applicable to deposits of receivers of insolvent state or national banks, since they are not public funds.

(f) Deposits of public funds of the United States Government are not exempted and Treasury has amended its Circular Number 92 so as not to require payment of interest on balances in war loan deposit accounts and is considering similar amendments to other circulars.

(g) The Federal Reserve Board is not authorized to grant member banks permission to pay interest on demand deposits.

(h) Member banks may continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until the Federal Reserve Board issues regulations on the subject. Preparation of such regulations requires investigation, study and careful consideration of practical and economic effects, but such regulations will be promulgated as soon as practicable. Views of all Federal Reserve Banks on this subject have been requested and will be given consideration before regulations are promulgated.

(i) The meaning of provision re waiving requirement of notice before payment of savings deposits requires further study and will have to be covered by a later ruling or by provision of a regulation.

(j) Prohibition against payment of interest is applicable only to deposits which are "payable on demand" and, therefore subject to such regulations as the Board may prescribe. Interest may be paid until maturity on deposits which are originally bona fide time deposits although such deposits have become payable within thirty days and for that reason alone are classified under existing regulations as "Demand Deposits" for purpose of computing reserves.

(k) Since provisions regarding payment of interest on deposits are incorporated in Section 19 of the Federal Reserve Act, definitions contained in Section II of the Federal Reserve Board's Regulation D should be considered in determining what are time deposits pending issuance of further regulations on this subject.

GEORGE L. HARRISON,  
Governor.