

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1309
November 21, 1933]

Ruling of Federal Reserve Board Relating to Payment of Interest

by Member Banks on Deposits of Postal Savings Funds

**To all Banks in the
Second Federal Reserve District:**

For your information we transmit herewith copy of a ruling which has been made by the Federal Reserve Board relating to the payment of interest by member banks on deposits of postal savings funds.

A copy of the Federal Reserve Board's Regulation Q, Series of 1933, relating to the payment of deposits and interest thereon by member banks of the Federal Reserve System was transmitted to you with our Circular No. 1275, dated September 1, 1933.

J. H. CASE,

Federal Reserve Agent.

PAYMENT OF INTEREST ON DEPOSITS OF POSTAL SAVINGS FUNDS

The Federal Reserve Board has received a number of inquiries with respect to the question whether deposits of postal savings funds, subject to the provisions of the regulations of the Postal Savings System governing the deposit of such funds in banks, are deposits on which interest may be paid by member banks under the provisions of Section 19 of the Federal Reserve Act.

By order of the Postmaster General, dated August 30, 1933, paragraph 1 of Section 15 of the regulations of the Postal Savings System on this subject was amended so as to read as follows:

"All funds deposited prior to July 1, 1933, in depository banks of the Postal Savings System shall be treated as time deposits, to remain on deposit in such banks for one calendar month from July 1, 1933. All funds deposited after July 1, 1933, in such banks shall likewise be treated as time deposits, for the period including the calendar month next following the date of deposit. At the expiration of such periods and in the event that withdrawal is not made of the deposit at the end of such calendar periods by the Board of Trustees of the Postal Savings System, then such funds shall be considered as having been redeposited for the succeeding calendar month; and likewise redeposited for each and every calendar month thereafter until withdrawal is made. All postal-savings funds held by any qualified depository bank in excess of the security value of its collateral shall be promptly disposed of in accordance with the provision of Section 17 of the Banking Regulations."

The Federal Reserve Board understands that, under the provisions of the regulations amended as above quoted, the withdrawal of postal savings funds from banks was authorized only on the first day of any calendar month and funds not withdrawn on such day were considered as having been redeposited for another full calendar month; and also that no such funds were authorized to be withdrawn except on the first day of any calendar month even though no interest was paid on such deposits. It is the view of the Federal Reserve Board that deposits withdrawable only under these conditions may properly be classified, during the period in which the regulations in the form as amended August 30, 1933, were in effect, as time deposits on which interest may be paid in accordance with the provisions of the Board's Regulation Q.

It is understood that the paragraph of the regulations of the Postal Savings System above quoted was further amended by order of the Postmaster General No. 4420, under date of October 24, 1933, so as to read as follows:

"In compliance with rulings of the Federal Reserve Board concerning time deposits, and to secure uniformity of procedure among all depository banks of the Postal Savings System, the calendar year is divided into specific periods of not less than thirty days each, with the beginning and termination dates of such periods shown, as follows:

	<i>From</i>	<i>To</i>	<i>No. of Days</i>		<i>From</i>	<i>To</i>	<i>No. of Days</i>
	Jan. 1	Jan. 31.....	31		July 1	July 31.....	31
	Feb. 1	Mar. 2.....	*30 or 31		Aug. 1	Aug. 31.....	31
	Mar. 3	April 1.....	30		Sept. 1	Sept. 30.....	30
	April 2	May 1.....	30		Oct. 1	Oct. 31.....	31
	May 2	May 31.....	30		Nov. 1	Nov. 30.....	30
	June 1	June 30.....	30		Dec. 1	Dec. 31.....	31

* 30 or 31 days, according to whether or not year is Leap Year.

All funds deposited prior to July 1, 1933, in depository banks of the Postal Savings System shall be treated as time deposits, to remain on deposit in such banks for the specified period beginning July 1, 1933. All funds deposited after July 1, 1933, in such banks shall likewise be treated as time deposits from the date of the deposit to and including the date of termination of the specific period next following the period in which the deposit is made, unless such deposit shall have been made on the first day of a period—in other words, the initial time period for deposits made subsequent to July 1, 1933, will be the period from and including the date of the deposit to the expiration of the next succeeding specified period, unless such deposit shall have been made on the first day of a period in which case the initial time period will be the period from and including the date of the deposit to and including the date of termination of the period in which the deposit is made. At the expiration of such periods and in the event that withdrawal is not made of the deposit by the Board of Trustees of the Postal Savings System, then such funds shall be considered as having been redeposited for the succeeding specified period; and likewise redeposited for each and every specified period until withdrawal is made. In accordance with the foregoing, postal-savings funds on deposit in qualified banks, the fixed time period having expired, may be withdrawn by the Board of Trustees of the Postal Savings System or relinquished voluntarily by depository banks only on the first day of a succeeding specified period: Provided, that all unsecured postal-savings funds held by any qualified bank to the credit of the Board of Trustees shall be subject to the provisions of Section 17 of these regulations."

It is the view of the Federal Reserve Board, after careful consideration of the regulations of the Postal Savings System as amended on October 24, 1933, that deposits withdrawable only at the times and under the conditions stated in the regulations as thus amended may be classified as time deposits on which interest may be paid in accordance with the provisions of the Board's Regulation Q, except as noted in the last paragraph hereof.

The Federal Reserve Board advised all Federal reserve banks in a telegram dated June 21, 1933 (Trans. No. 1826) that, since the provisions regarding payment of interest on deposits are incorporated in Section 19 of the Federal Reserve Act, definitions contained in Section II of the Board's Regulation D should be considered in determining what are time deposits pending the issuance of further regulations relating to the payment of interest on deposits and that member banks might continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until the Board should issue regulations on the

subject; and it is to be noted that, under the provisions of Section II of Regulation D, deposits of postal savings funds in banks under the terms of the Act of June 25, 1910 as amended constitute time deposits. The Federal Reserve Board's Regulation Q relating to the payment of interest on deposits was adopted and made effective on August 29, 1933; and, as above stated, the regulations of the Postal Savings System, governing the deposits of postal savings funds in banks, were amended by order of the Postmaster General dated August 30, 1933, so that deposits subject to the conditions thereof were time deposits. In the circumstances, the Federal Reserve Board offers no objection to the payment by member banks of interest on postal savings funds accruing during the period from June 16, 1933, until August 30, 1933; except that no member bank, which during such period may have lawfully terminated its agreement with the Postal Savings System to pay interest on deposits of postal savings funds payable on demand, may pay interest on such deposits payable on demand which accrued after the effective date of the termination of such agreement.

It is to be observed that the regulations of the Postal Savings System, as amended on October 24, 1933, contain the provision that all unsecured postal savings funds held by any qualified bank to the credit of the Board of Trustees shall be subject to the provisions of Section 17 of the regulations, which provides that an amount in a qualified bank in excess of the maximum balance authorized for such bank shall at once be returned in accordance with the procedure prescribed therein to the Board of Trustees. A provision similar in effect was included in the regulations as amended on August 30, 1933. It would appear that an amount in excess of the maximum balance authorized for any qualified bank is not subject to the conditions with respect to withdrawal to which other deposits of postal savings funds are subject under the amended regulations. Such excess amounts, therefore, do not conform to the requirements with respect to time deposits and must be considered deposits payable on demand upon which no interest may lawfully be paid by a member bank.

November 18, 1933.

In view of the fact that the Board of Trustees has issued a circular letter to all member banks of the Federal Reserve System, dated November 13, 1933, in which it is recommended that member banks of the Federal Reserve System, in view of the recent legislation, should not pay interest on deposits of postal savings funds held by them, it is suggested that the Board of Trustees issue a circular letter to all member banks of the Federal Reserve System, dated November 18, 1933, in which it is recommended that member banks of the Federal Reserve System, in view of the recent legislation, should not pay interest on deposits of postal savings funds held by them.