

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1491]
[December 15, 1934]

REDUCTION OF MAXIMUM RATE OF INTEREST ON
TIME AND SAVINGS DEPOSITS
Amendments to Regulation Q of the Federal Reserve Board

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

The Federal Reserve Board has adopted, effective February 1, 1935, the amendments set forth on the following pages to its Regulation Q relating to payment of interest on deposits by member banks of the Federal Reserve System. Copies of Regulation Q of the Federal Reserve Board, Series of 1933, were transmitted to member banks in this district with our circular No. 1275, dated September 1, 1933.

Regulation Q as so amended provides that no member bank shall pay interest, accruing after January 31, 1935, on any time deposit or 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 the regulation; but makes exception as to rates of interest provided in contracts which were 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 the bank at its option or without liability.

The Federal Reserve Board has requested me to advise member banks in this district which have branches located outside of the states of the United States and the District of Columbia that, in accordance with subsection (c) (5) of section III and subsection (c) (5) of section V of Regulation Q as amended, the Board will be glad to give consideration to requests for the prescribing of a higher maximum rate of interest which may be paid on time and savings deposits at such branches.

Copies of Regulation Q as amended by the amendments set forth on the following pages are being printed and will be available for distribution shortly. When available I shall transmit a copy of such amended regulation to each member bank in this district.

J. H. CASE,
Federal Reserve Agent.

AMENDMENTS TO REGULATION Q OF THE FEDERAL RESERVE BOARD
RELATING TO PAYMENT OF INTEREST ON DEPOSITS

Effective February 1, 1935

Subsection (c) of section III, and footnote 6, of Regulation Q are amended to read as set forth below:

SECTION III. INTEREST ON TIME DEPOSITS

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

(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.

Subsection (c) of section V, and footnote 9, of Regulation Q are amended to read as set forth below:

SECTION V. INTEREST ON SAVINGS DEPOSITS

* * *

(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,⁽⁹⁾ 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.

(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.