

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 1952]
June 21, 1939

Rate of Interest Lawfully Payable After July 1, 1939 on Time and Savings
Deposits by Member Banks in the State of New Jersey

To all Member Banks in the State of New Jersey
Located in the Second Federal Reserve District:

The Commissioner of Banking and Insurance of the State of New Jersey has issued an order which provides, in effect, that no bank, trust company or savings bank shall pay interest or dividends accruing after July 1, 1939 on any time or savings deposit at a rate in excess of 1% per annum, compounded quarterly (subject to a proviso with reference to the distribution of excess surplus not oftener than once every three years by savings banks as provided by law). A copy of such order and a copy of the resolution of the Banking Advisory Board of the State of New Jersey recommending the issuance thereof are printed on the following pages of this circular.

Section 24 of the Federal Reserve Act, as amended, provides, in part, as follows:

“Any such (national banking) 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.”

Subsections (a) and (c) of Section 3 of Regulation Q of the Board of Governors of the Federal Reserve System, as currently in effect, provide as follows:

“(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.”

“(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.”

The Board of Governors of the Federal Reserve System has stated that in its opinion, in view of the provisions of Section 24 of the Federal Reserve Act and of the order of the Commissioner of Banking and Insurance of the State of New Jersey referred to above, the rate of interest accruing after July 1, 1939, and during the period that such order is legally in effect, which a national bank or other member bank located in the State of New Jersey may lawfully pay on time or savings deposits, may not exceed the rate of 1 per centum per annum prescribed in such order. The Board of Governors of the Federal Reserve System has also stated that since the Commissioner's order excepts contracts entered into in good faith prior to July 1, 1939, a national bank located in New Jersey is not prohibited from paying interest at a rate greater than 1 per centum per annum in accordance with the terms of, and until the termination of, any contract entered into in good faith prior to July 1, 1939 and in force on that date, provided such rate is otherwise in conformity with the provisions of Regulation Q and the contract is terminated as soon as possible under the terms thereof.

GEORGE L. HARRISON,
President.

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

BULLETIN

VOLUME 1

JUNE 15, 1939

BULLETIN 73

TO ALL BANKS:

Resolution of The Banking Advisory Board adopted June 14, 1939.

WHEREAS, it has been brought to the attention of this Board that, because of economic factors and influences over which they have no control, the banking institutions of this State have been limited and restricted in opportunities for the safe investment of funds deposited with them in time, demand, and other accounts; and

WHEREAS, it appears that the limited field for investment has resulted in a diminishing rate of return upon loans and discounts, with a consequent decrease in the revenue earned by the several banking institutions; and

WHEREAS, it appears that the present maximum rate of interest paid on time deposits by banking institutions of this State is excessive and unwarranted in view of decreased earnings, and that its continuance will tend to jeopardize safe and sound methods of banking throughout the State; and

WHEREAS, it is the opinion of this Board that the maximum rate of interest upon time deposits should be uniform throughout the State to prevent movement of deposited funds from one institution to another because of differences in interest rates;

NOW, THEREFORE, BE IT RESOLVED —

That it is the opinion of this Board that the maximum rate which banking institutions of this State should pay on time deposits with due regard to sound banking practices, is one per cent per annum; and be it further

RESOLVED that the Banking Advisory Board does hereby recommend to the Commissioner of Banking and Insurance that he exercise the powers vested in him by R. S. App. A:7-8, and that he issue an order directed to the banking institutions of this State limiting the maximum rate of interest payable upon time deposits to one per cent per annum.

STATE OF NEW JERSEY
DEPARTMENT OF BANKING AND INSURANCE

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BULLETIN 74

TO ALL BANKS:

Pursuant to the power vested in me by the provisions of Revised Statutes App. A:7-8 to App. A:7-15 as amended, I, Louis A. Reilly, Commissioner of Banking and Insurance of the State of New Jersey, do hereby make the following order:

1. No bank or trust company shall pay, or undertake or promise to pay, interest or dividends accruing after July 1, 1939, on any time or savings deposits, as the same are defined in Bulletin #25, Volume 1, promulgated July 9, 1936, as supplemented September 30, 1936, and filed in the Department, at a rate in excess of one per cent per annum compounded quarterly; provided, that any bank or trust company may pay interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith prior to July 1, 1939, and in force on that date, and which may not be modified or terminated by such bank, trust company or savings bank, at its option; but no such certificate of deposit or other contract shall be renewed or extended, unless it be modified to conform with the provisions of this regulation, and all such certificates of deposit or other contracts shall be terminated, or modified to conform with this regulation at the earliest possible date, in accordance with the terms hereof.

2. No savings bank subject to the provisions of Title 17, Chapter 6 of the Revised Statutes, and no savings bank organized or subject to the provisions of any special act, including savings banks having shares of capital stock, shall pay or undertake or promise to pay interest or dividends upon deposits as defined in paragraph 1 of this order, at a rate in excess of one per cent per annum, compounded quarterly, except to the extent permitted by paragraph 1 hereof; provided, however, that nothing in this regulation contained shall be construed as prohibiting or preventing such savings bank from dividing the excess of its surplus above twenty-five per centum of its deposits as an extra dividend to depositors as provided by law; provided further that such distribution of excess surplus to depositors shall not be made oftener than once every three years; and provided, that no such savings bank shall, after July 1, 1939, make such division of excess surplus within a period of three years from the date of its last distribution to depositors of such excess surplus.

3. All orders or regulations heretofore made by the Commissioner of Banking and Insurance defining deposits and regulating rates of interest thereon are hereby confirmed, and are hereby continued in full force and effect, except as herein expressly modified.

4. This order is based upon a recommendation contained in a resolution adopted by the Banking Advisory Board at a meeting held on June 14, 1939 and shall take effect immediately.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office this fifteenth day of June, 1939.

Yours very truly,

LOUIS A. REILLY,
*Commissioner of Banking and Insurance
of New Jersey.*