FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3105
June 28, 1946]

PAYMENT OF INTEREST ON TIME AND SAVINGS DEPOSITS

To All Member Banks in the Second Federal Reserve District:

This circular contains information regarding the maximum rates of interest which member banks in the Second Federal Reserve District may lawfully pay on time and savings deposits.

Statutory provisions

1. Section 19 of the Federal Reserve Act (hereinafter referred to as the "Act") provides generally, among other things, that no member bank shall pay any interest on any deposit payable on demand, and that the Board of Governors of the Federal Reserve System shall, by regulation, limit the rate of interest which may be paid by member banks on time and savings deposits[1]; and authorizes the Board of Governors to define certain terms used in the Act, to determine what shall be deemed a payment of interest, and to prescribe rules and regulations to effectuate the purposes of the section.

Regulation Q

2. Under authority of the provisions of Section 19 of the Act, the Board of Governors of the Federal Reserve System has issued Regulation Q, entitled "Payment of Interest on Deposits". Reference is made to the Regulation for the definitions of terms used in the Act and for details as to the prohibition against the payment of interest on deposits payable on demand and the limitations upon the payment of interest on time and savings deposits. A copy of this Regulation together with a copy of the most recent Supplement thereto has been furnished to each member bank in this District.

Supplement to Regulation Q

3. The latest Supplement to Regulation Q, effective January 1, 1936, prescribes the maximum rates of interest which member banks may pay on time and savings deposits.[1] In the event of any change in these rates, we will promptly notify our member banks of the change.

Member banks limited to maximum rate for State banks

4. Section 24 of the Act provides that the rate of interest on time and savings deposits which a national banking association may pay 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.

5. Section 3(*c*) of Regulation Q provides that the maximum rate of interest paid by a member bank on a time or savings deposit may not exceed either the applicable maximum rate prescribed in the Supplement to Regulation Q, or the applicable maximum rate authorized by law to be paid upon such deposit by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less. Information relative to the maximum rates of interest currently authorized by law to be paid upon time and savings deposits by State banks and trust companies organized under the laws of the States of New York and New Jersey, respectively, is set forth below.

Maximum rate for banks located in the State of New York

6. The Banking Board of the State of New York adopted its General Regulation No. 3, as revised, on November 8, 1943, continuing in effect the provisions of the regulation con-

[1] The foregoing provisions are not applicable to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

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tained in its Resolution No. 200 adopted on June 21, 1935, prescribing 2% per annum, compounded quarterly, as the maximum rate of interest, accruing after October 1, 1935, which banks and trust companies organized under the laws of the State of New York might pay on time or thrift deposits.[1] An extract from the Banking Board's General Regulation No. 3 appears on page 3 of this circular.

7. The Board of Governors of the Federal Reserve System has heretofore stated its view that the rate of interest, accruing after October 1, 1935 and during the period for which the regulation contained in Resolution No. 200 of the Banking Board is legally in effect, which a national bank or other member bank located in the State of New York may lawfully pay on time or savings deposits may not exceed the rate of 2% per annum prescribed in such regulation of the Banking Board. However, attention is called to the fact that under the currently effective Supplement to Regulation Q, member banks are prohibited from paying interest at a rate in excess of 1% per annum on time deposits[2] (except Postal Savings deposits) having maturities of less than 90 days or payable upon written notice of less than 90 days.

Maximum rate for banks located in the State of New Jersey

8. The Commissioner of Banking and Insurance of New Jersey, by his order dated June 15, 1939, has heretofore prescribed 1% per annum, compounded quarterly, as the maximum rate of interest accruing after July 1, 1939, which banks and trust companies organized under the laws of the State of New Jersey might pay on any time or savings deposits. A copy of the text of the Commissioner's order dated June 15, 1939, appears on page 4 of this circular.

9. The Commissioner of Banking and Insurance, by his order dated June 4, 1946, has prescribed 1½% per annum, compounded quarterly, as the maximum rate of interest accruing after July 1, 1946, which any such bank or trust company may pay on any time or savings deposits; and has continued in effect all provisions, except as to the rate of interest, contained in his earlier order. A copy of the text of the Commissioner's order dated June 4, 1946, appears on page 4 of this circular.

10. The Board of Governors of the Federal Reserve System has stated its view that the rate of interest accruing after July 1, 1946 and during the period for which the Commissioner's order dated June 4, 1946 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 1½% per annum prescribed in such order of the Commissioner. However, attention is called to the fact that under the currently effective Supplement to Regulation Q, member banks are prohibited from paying interest at a rate in excess of 1% per annum on time deposits[2] (except Postal Savings deposits) having maturities of less than 90 days or payable upon written notice of less than 90 days.

Effect of this circular on previous circulars

11. This circular supersedes our letter dated February 13, 1935, entitled "Maximum Rates of Interest on Time and Savings Deposits Payable Only at Offices of Member Banks Located Outside of the United States"; our Circular No. 1583 dated August 30, 1935, entitled "Rate of Interest Lawfully Payable After October 1, 1935 on Time and Savings Deposits by Member Banks in the State of New York"; and our Circular No. 1952 dated June 21, 1939, entitled "Rate of Interest Lawfully Payable After July 1, 1939 on Time and Savings Deposits by Member Banks in the State of New Jersey".

Additional copies of this circular may be obtained upon request.

ALLAN SPROUL,
President.

[1] Since the use of the words "saving" and "savings" is restricted by statute in the State of New York, the term "thrift deposit" is used to describe deposits conforming to the definition of the term "savings deposit" contained in Regulation Q.

[2] As defined in section 1 of Regulation Q, "time deposits" means "time certificates of deposit" and "time deposits, open account".

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Extract from Regulation No. 3 of the Banking Board of the State of New York

November 8, 1943

GENERAL REGULATION No. 3

Deposits and Shares—Payment of Interest and Dividends

WHEREAS, pursuant to subdivision 1 of Section 14 of the Banking Law, the Banking Board is authorized to make, alter and amend rules and regulations to effectuate the policy declared in Section 10 of said Banking Law and pursuant to subdivision 1 (h) of said Section 14, the Banking Board is authorized to prescribe the interest or dividend rate which may be paid by any banking organization and to prohibit the payment of interest or dividends by any banking organization;

NOW, THEREFORE, BE IT RESOLVED THAT

Demand Deposits

1. No bank or trust company and no private banker, investment company, or New York agency of any foreign banking corporation shall directly or indirectly, by any device whatsoever, pay after December 31, 1934, any interest on any deposit or similar credit balance 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 entered into in good faith on or before December 10, 1934, and which was in force on that date; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this regulation and every bank and trust company and every private banker and New York agency of any foreign banking corporation shall take such action as may be necessary to conform to this regulation as soon as consistent with its contractual obligation; provided, however, that this regulation 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 so long as the regulations of the Federal Reserve Board permit the payment of interest on such deposits by member institutions. Demand deposits within the meaning of this regulation shall comprise all deposits payable within thirty days and all funds held by investment companies in connection with the exercise of the power conferred in subdivision 1 (a) of Section 508 of the Banking Law which are payable within thirty days. The Superintendent is authorized to construe this regulation in such a manner as to require the persons and corporations to which it applies to conform to the requirements imposed upon banks which are members of the Federal Reserve System with respect to the non-payment of interest on demand deposits.

Time and Thrift Deposits

2. No bank, trust company or private banker shall pay interest accruing after October 1, 1935, on any time or thrift deposit or any part thereof at a rate in excess of two per cent per annum compounded quarterly; provided, however, that a bank, trust company or private banker may pay interest in accordance with the terms of any certificate of deposit or other contract which was lawfully entered into in good faith prior to June 26, 1935, and in force on that date and which may not legally be terminated or modified by such bank, trust company or private banker at its or his 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 thereof. This regulation shall not prevent the compounding of interest at other than quarterly intervals, provided the aggregate amount of interest so compounded shall not exceed the aggregate amount of interest at two per cent per annum compounded quarterly.

Time and Thrift Deposits in Out-of-State Offices

3. No existing regulation of the Banking Board forbidding the payment of interest on any deposit or similar credit balance which is payable on demand, or prescribing a maximum rate of interest payable by banks, trust companies, and private bankers upon time and thrift deposits, shall apply to any deposit with any such bank, trust company, or banker which is payable only at an office thereof located outside of the State of New York.

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Order, dated June 15, 1939 of the Commissioner of Banking and Insurance of the State of New Jersey

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.

Order, dated June 4, 1946 of the Commissioner of Banking and Insurance of the State of New Jersey

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, Lawrence B. Carey, Commissioner of Banking and Insurance of the State of New Jersey, do hereby make the following order:

No bank or trust company or savings bank, however chartered, shall pay, or undertake or promise to pay, interest or dividends accruing after July 1, 1946, 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, in any amount, or amounts, which in the aggregate are equivalent to a rate in excess of one and one-half per cent per annum compounded quarterly; provided, however, that nothing in this regulation contained shall be construed as prohibiting or preventing a 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.

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.

This order is based upon a resolution adopted by the Banking Advisory Board at a meeting held May 7, 1946 and shall take effect July 1, 1946.

IN WITNESS WHEREOF, I have hereunto set my hand and seal of office this fourth day of June, 1946.

Yours very truly,

LAWRENCE B. CAREY,
Commissioner of Banking and Insurance of New Jersey.

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