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November 3, 1972

To the Addressee:

Enclosed is a reprint of Regulation Q, as amended effective January 1, 1971, of the Board of Governors of the Federal Reserve System. It replaces your copies of the Regulation, as amended effective February 12, 1970, and the amendments thereto, effective June 30, 1970 and January 1, 1971 (which is the latest amendment to the Regulation). Please retain your copy of the Supplement, effective June 24, 1970, to Regulation Q.

Circulars Division
Federal Reserve Bank of New York

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

INTEREST ON DEPOSITS

REGULATION Q

(12 CFR 217)

As amended effective January 1, 1971



Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

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[SEC. 217.7—SUPPLEMENT, MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS, is printed separately.]

REGULATION Q

(12 CFR 217)

As amended effective January 1, 1971

INTEREST ON DEPOSITS*

SECTION 217.0—SCOPE OF PART

(a) This [Part] is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are cited in the [Appendix].

(b) This Part relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Part 204 of this chapter.

(c) The provisions of this Part do not apply 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.

SECTION 217.1—DEFINITIONS

(a) **Demand deposits.** The term "any deposit which is payable on demand", hereinafter referred to as a "demand deposit", includes every deposit which is not a "time deposit" or "savings deposit", as defined in this section.

(b) **Time deposits.** The term "time deposits" means "time certificates of deposit" and "time deposits, open account", as defined in this section.

(c) **Time certificates of deposit.** The term "time certificate of deposit" means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order:

(1) On a certain date, specified in the instrument, not less than 30 days after date of the deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,¹ and

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.** The term "time deposit, open account" means a deposit, other than a "time certificate of deposit", with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit,² or prior to the expira-

* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 217; cited as 12 CFR 217. The words "this Part", as used herein, mean Regulation Q.

¹ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time certificate of deposit" within the meaning of the above definition.

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account", even though some of the deposits are made within 30 days from the end of the period.

tion of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.** The term "savings deposit" means a deposit—

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made⁵ and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

(f) **Deposits as including certain promissory notes and other obligations.** For the purposes of this Part, the term "deposits" also includes a member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) is issued to (or undertaken with respect to) and held for the account of (i) a bank or an institution the time deposits of which are exempt from § 217.7 pursuant to § 217.3(g) or (ii) an agency of the United States or the Government Development Bank for Puerto Rico;

(2) evidences an indebtedness arising from a transfer of direct obligations of, or obligations

that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase;

(3) (i) bears on its face, in bold-face type, the following:

"This obligation is not a deposit and is not insured by the Federal Deposit Insurance Corporation";

states expressly that it is subordinated to the claims of depositors and ineligible as collateral for a loan by the issuing bank; is unsecured; has an original maturity of 7 years or more; is in an amount of at least \$500; and has been approved by the Comptroller of the Currency, in the case of a national bank, or by the Board of Governors, in the case of a State member bank, as an addition to the bank's capital structure; or (ii) meets all of the requirements in the preceding clause except maturity and with respect to which the Comptroller, in the case of a national bank, or the Board, in the case of a State member bank, has determined that exigent circumstances require the issuance of such obligation without regard to the provisions of this Part; or (iii) was issued or publicly offered before June 30, 1970, with an original maturity of more than 2 years; or

(4) arises from a borrowing by a member bank from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds", received by such dealer on the date of the loan in connection with clearance of securities transactions.

This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under repurchase agreement issued before July 25, 1969.

(g) **Multiple maturity time deposit.** The term "multiple maturity time deposit" means any time deposit (1) that is payable at the depositor's option on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

⁵ The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

SECTION 217.2—DEMAND DEPOSITS

(a) **Interest prohibited.** Except as provided by section 19 of the Federal Reserve Act, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit.

(b) **Meaning of interest.** Within this Part, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

SECTION 217.3—INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate.** Except as provided in this section, no member bank shall, directly or indirectly, by any device whatsoever, pay interest on any time 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 in § 217.7. In ascertaining the rate of interest paid, the effects of compounding of interest may be disregarded.

(b) **Modification of contracts to conform to regulation.** No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this Part, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this Part.

(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 (1) the applicable maximum rate prescribed pursuant to the provisions of paragraph (a) of this section, or (2) 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.

(d) **Grace periods in computing interest on savings deposits.** A member bank may pay interest on a savings deposit received during the first 10 calendar days of any calendar month at the applicable maximum rate prescribed pursuant to paragraph (a) of this section 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 Part, which ever shall first occur; and a member bank may pay interest on a savings deposit withdrawn during its last 3 business days of any calendar month ending a regular quarterly or semiannual interest period at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated to the end of such calendar month.

(e) **Computation of interest.** In the computation of simple daily interest, the time factor should be expressed as a fraction in which the actual number of days the funds earn interest is the numerator, and the denominator is either 360, 365, or, in a leap year, 366. However, when a deposit matures in one month (or multiples thereof), the bank may use 30 days in the numerator (or corresponding multiples thereof).

(f) **No interest after maturity or expiration of notice.** After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

(g) **Time deposits of foreign governmental entities and international organizations.** Section 217.7 does not apply to the rate of interest that may be paid by a member bank on a time deposit having a maturity of 2 years or less and representing funds deposited and owned by (1) a foreign national government, or an agency or instrumentality thereof^{5a} engaged principally in activities which are ordinarily performed in the United States by governmental entities, (2) an international entity of which the United States is a member, or (3) any other foreign, international,

^{5a} Other than States, provinces, municipalities or other regional or local governmental units, or agencies or instrumentalities thereof.

or supranational entity specifically designated by the Board as exempt from § 217.7. All certificates of deposit issued by member banks to such entities on which the contract rate of interest exceeds the maximum prescribed under § 217.7 shall provide that (1) in the event of transfer, the date of transfer, attested to in writing by the transferor, shall appear on the certificate, and (2) the maximum rate limitations of § 217.7 in effect at the date of issuance of the certificate shall apply to the certificate for any period during which it is held by a person other than an entity exempt therefrom under the foregoing sentence.⁶ Upon the presentment of such a certificate for payment, the bank may pay the holder the contract rate of interest on the deposit for the time that the certificate was actually owned by an entity so exempt.

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

(a) **Time deposits payable on a specified date.** No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in paragraph (d) of this section.

(b) **Time deposits payable after a specified period.** No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in paragraph (d) of this section.

(c) **Time deposits payable after a specified notice.** No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in paragraph (d) of this section.

(d) **Payment in emergencies.** In an emergency where it is necessary to prevent great hardship

to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency: *Provided*, That before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than 3 months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit 3 months or longer, and shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than 3 months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date, and maturity as the original deposit.

(e) **Loans upon security of time deposits.** A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit.

SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice of withdrawal.** Whether or not interest is paid, no member shall require or waive notice of withdrawal as to any amount or percentage of the savings deposit of any depositor unless it shall similarly require or waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same contractual provisions with respect to notice of withdrawal. If a member bank, without requiring notice of withdrawal, pays interest that has

⁶ A new certificate not maturing prior to the maturity date of the original certificate may be issued by the member bank to the transferee, in which event the original must be retained by the bank. The new certificate may not provide for interest after the date of transfer at a rate in excess of the applicable maximum rate authorized by § 217.7 as of the date of issuance of the original certificate.

accrued on a savings deposit during the preceding interest period, it shall, upon request and without requiring such notice, pay interest that has accrued during said period on the savings deposits of every other depositor. No member bank shall change its practice with respect to the requiring or waiving of notice of withdrawal of savings deposits for the purpose of discriminating in favor of or against any depositor or depositors, and no such change of practice shall be made except pursuant to duly recorded action of the bank's board of directors or a properly authorized committee thereof.

(b) **Loans on security of savings deposits.** If it is not the practice of a member bank to require notice of withdrawal of savings deposits, no restrictions are imposed by this Part upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 2 per cent per annum in excess of the rate of interest paid on such deposit.

(c) **Manner of payment of savings deposits.**

(1) Subject to the provisions of subparagraph (2) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment⁷ to the depositor himself (but not to any other person whether or not acting for the depositor), except

(i) where the deposit is represented by a passbook, to any person presenting the passbook;⁷

(ii) to an executor, administrator, trustee, or other fiduciary holding the savings deposit as part of a fiduciary estate, or to a person, other than the bank, holding a general power of attorney granted by the depositor;

(iii) to any person, including the bank, that has extended credit to the depositor on the security of the savings deposit, where such payment is made in order to enable the creditor to realize upon such security;

(iv) pursuant to the order of a court of competent jurisdiction;

⁷ Payment from a savings deposit or presentation of a passbook may be made over the counter, through the mails, or otherwise.

(v) upon the death of the depositor, to any person authorized by law to receive the deposit; or

(vi) interest paid to a third person pursuant to written instruction or assignment by the depositor accepted by the bank, and placed on file therein.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, no withdrawal shall be permitted by a member bank to be made from a savings deposit, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor (other than of interest on the savings deposit) if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral,

(i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank; or

(ii) which provides that such payments or transfer of credit shall be made at daily, monthly, or other such periodic intervals, except where made to enable the bank, on the depositor's behalf and pursuant to his written instructions, to effect the payment of instalments of principal, interest, or other charges (including taxes or insurance premiums) due on a real estate loan or mortgage.

(3) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal from such a deposit shall be entered in the passbook as soon as practicable after the withdrawal is made.

SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

Every advertisement, announcement, or solicitation relating to the interest paid on deposits in member banks shall be governed by the following rules:

(a) **Annual rate of simple interest.** Interest rates shall be stated in terms of the annual rate of simple interest. In no case shall a rate be advertised that is in excess of the applicable maximum rate for the particular deposit.

(b) **Percentage yields based on one year.** Where a percentage yield achieved by compounding in-

terest during one year is advertised, the annual rate of simple interest shall be stated with equal prominence, together with a reference to the basis of compounding. No member bank shall advertise a percentage yield based on the effect of grace periods permitted in § 217.3(d).

(c) **Percentage yields based on periods in excess of one year.** No advertisement shall include any indication of a total percentage yield, compounded or simple, based on a period in excess of a year, or an average annual percentage yield achieved by compounding during a period in excess of a year.

(d) **Time or amount requirements.** If an advertised rate is payable only on deposits that meet time or amount requirements, such requirements shall be clearly and conspicuously stated. Where the time requirement for an advertised rate is in excess of a year, the required number of years for the rate to apply shall be stated with equal prominence, together with an indication of any lower rate or rates that will apply if the deposit is withdrawn at an earlier maturity.

(e) **Profit.** The term "profit" shall not be used in referring to interest paid on deposits.

(f) **Accuracy of advertising.** No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts.

(g) **Solicitation of deposits for banks.** Any person or organization that solicits deposits for a member bank shall be bound by the rules contained in this section with respect to any advertisement, announcement, or solicitation relating to such deposits. No such person or organization shall advertise a percentage yield on any deposit it solicits for a member bank that is not authorized to be paid and advertised by such bank.

(SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS, is printed separately.)

STATUTORY APPENDIX

Section 19 of the Federal Reserve Act provides in part as follows:

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

[U.S.C., title 12, sec. 461.]

(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit 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 which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by

any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

[U.S.C., title 12, sec. 371a.]

(j) The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest which may be paid by member banks on time and savings deposits. The Board may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply 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. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member.

[U.S.C., title 12, sec. 371b. The first two sentences of this paragraph are, in part, temporary. Unless section 7 of the Act of September 21, 1966 (80 Stat. 825), as amended by the Act of December 23, 1969 (83 Stat. 371), is modified, on June 1, 1973, such sentences will read as follows: "The Board of Governors of the Federal Reserve System shall from time to time prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts."]

Section 24 of the Federal Reserve Act provides, with respect to national banking associations, in part as follows:

* * * Any such 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.

[U.S.C., title 12, sec. 371.]