

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 4960 ]  
[ November 10, 1960 ]

PAYMENT OF INTEREST ON DEPOSITS  
Absorption of Exchange Charges

*To All Member Banks of the  
Second Federal Reserve District :*

On August 4, 1960, the Board of Governors of the Federal Reserve System issued an interpretation on absorption of exchange charges as payment of interest on deposits, the text of which was set forth in our Circular No. 4922, dated August 8. On November 8, 1960, the Board issued the following modifying interpretation :

In an interpretation of August 4, 1960, published at p. 858 of the August 1960 Federal Reserve Bulletin, the Board expressed the opinion that any absorption by member banks of exchange charges would constitute the payment of interest on demand deposits, including an arrangement whereby a member bank maintained a balance with another bank in return for which such other bank directly or indirectly absorbed for it exchange charges made by drawee banks.

The Board has been asked to reconsider the application of the interpretation in certain situations said to involve relatively small amounts of exchange charges and those where the cost of collection is said to exceed the amount of the charges. The Board of Governors, the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have decided to undertake a study to obtain additional information. In connection therewith, a survey will be made of a number of institutions in each Federal Reserve District on a spot-check basis.

Further consideration will be given the subject in the light of the findings of the survey. In the meantime, and as a tentative authorization, to be applicable only during the pendency of the study and the reaching of a final determination, member banks are authorized to absorb exchange charges in amounts aggregating not more than \$2 for any one depositor in any calendar month or any regularly established period of 30 days.

Member banks, both State and national, will be expected to conform to the August 4, 1960 interpretation as herein modified.

The interpretation quoted above will be published in the *Federal Register* and in the *Federal Reserve Bulletin*.

ALFRED HAYES,  
*President.*