

X-7472

C O P Y.

June 20, 1933.

STEVENS - CHICAGO

Your wire June 17. Section 19 Federal Reserve Act, as amended by Section 11(b) Banking Act of 1933, does not prohibit payment of interest on demand deposits in accordance with terms of contracts entered into in good faith which were in force on June 16, 1933, but forbids renewal or extension of contracts unless modified so as not to provide for payment of interest on demand deposits and requires every member bank to take action to discontinue payment of interest on demand deposits as soon as possible consistently with its contractual obligations. If contract providing for payment of interest on demand deposits is subject to cancellation at option of bank, therefore, bank should cancel the same as soon as possible. Note specific exemptions of deposits made by mutual savings banks and deposits of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality with respect to which payment of interest is required under State law. Board will prescribe regulations as to rates of interest on time deposits as soon as practicable but member banks may continue to pay interest on time deposits in accordance with their usual practice or existing contracts pending issuance of such regulations.

MORRILL.