

C O P Y.

X-7473

June 21, 1933.

Curtiss - Young	- Boston	Stevens - McDougal	- Chicago
Case - Harrison	- New York	Wood - Martin	- St. Louis
Austin - Norris	- Philadelphia	Peyton - Geery	- Minneapolis
Williams- Fancher	- Cleveland	McClure - Hamilton	- Kansas City
Hoxton - Seay	- Richmond	Walsh - McKinney	- Dallas
Newton - Johns	- Atlanta	Newton - Calkins	- San Francisco

TRANS. NO. 1826

Numerous inquiries being received as to effect of provisions of Section 19 Federal Reserve Act, as amended by Section 11(b) Banking Act of 1933 (Glass Bill), regarding payment of interest on deposits. Some of these questions cannot be answered immediately; but the following can be stated at this time:

(a) Except as indicated below, law forbids member banks to pay interest on demand deposits after June 16, 1933; but interest accrued on or before that date may be paid.

(b) Law does not prohibit payment of interest in accordance with terms of any certificate of deposit or other contract previously entered into in good faith and in force on June 16, 1933.

(c) No such certificate of deposit or other contract may be renewed or extended without eliminating provision for payment of interest on demand deposits; and all such contracts must be modified as soon as possible consistently with bank's contractual obligations so as to eliminate payment of interest on demand deposits. If contract is subject to modification or cancellation at option of bank it must be modified as soon as possible.

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(d) Prohibition against payment of interest on demand deposits, however, not applicable to deposits payable only at an office of a member bank located in a foreign country nor 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, with respect to which payment of interest is required under State law.

(e) This exemption not applicable to deposits of receivers of insolvent State or national banks, since they are not public funds.

(f) Deposits of public funds of the United States Government not exempted and Treasury has amended its Circular number 92 so as not to require payment of interest on balances in War loan deposit accounts and is considering similar amendments to other circulars.

(g) Federal Reserve Board not authorized to grant member banks permission to pay interest on demand deposits.

(h) Member banks may continue to pay interest on time deposits in accordance with their usual practice or existing bona fide contracts until Federal Reserve Board issues regulations on subject. Preparation of such regulations requires investigation, study and careful consideration of practical and economic effects; but such regulations will be promulgated as soon as practicable. Views of all Federal reserve banks on this subject have been requested and will be given consideration before regulations are promulgated.

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(i) Meaning of provision re waiving requirement of notice before payment of savings deposits requires further study and will have to be covered by later ruling or by provision of regulation.

(j) Prohibition against payment of interest is applicable only to deposits which are QUOTE payable on demand UNQUOTE and, therefore, subject to such regulations as the Board may prescribe, interest may be paid until maturity on deposits which are originally bona fide time deposits although such deposits have become payable within thirty days and for that reason alone are classified under existing regulations as QUOTE demand deposits UNQUOTE for purpose of computing reserves.

(k) Since provisions regarding payment of interest on deposits are incorporated in Section 19 of Federal Reserve Act, definitions contained in Section II of Board's Regulation D should be considered in determining what are time deposits pending issuance of further regulations on this subject.

Please furnish copies of this telegram to counsel and all officers of your bank and branches.

MORRILL