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(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal  
Reserve Agents.

July 6, 1933.

The Pittsfield Third National Bank and Trust Company,  
Pittsfield, Massachusetts.

Gentlemen:

Your telegram of June 28, addressed to the Comptroller of the Currency and inquiring whether under the Banking Act of 1933 you may continue to pay interest on postal savings funds, has been referred to the Federal Reserve Board for reply.

Section 11(b) of the Banking Act of 1933 forbids a member bank to pay interest on any deposit (with certain specified exemptions) which is payable on demand, except in accordance with the terms of a contract entered into in good faith prior to June 16, 1933, and in force on that date. No such contract may be renewed or extended unless modified so as to eliminate the provision for the payment of interest on deposits payable on demand, and every member bank is required to take action necessary to eliminate any such provision as soon as possible consistently with its contractual obligations.

The Federal Reserve Board understands that instructions have been sent by the Third Assistant Postmaster General to the various postmasters under date of June 26, 1933, reading in part as follows:

"Pursuant to the enactment of the Banking Act of 1933, the Postal Savings System will, at an early date, adjust its deposits in all depository banks to a time basis. During the transitional

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stage, the administrative officers of the system will hold that its contractual relations with such banks wherein they are bound by the regulations promulgated by the board of trustees are in full force and effect. Accordingly, all postal-savings funds on deposit in local qualified banks to the credit of the board of trustees, Postal Savings System, will continue to earn interest, and the rate of  $2\frac{1}{2}$  percent remains unchanged until further notice.

As an initial step toward making all postal-savings deposits in qualified bank time deposits, direct accounting and central accounting postal-savings postmasters shall at once discontinue drawing checks on banks holding their checking accounts and, pending further development of procedure, shall obtain funds to meet postal-savings withdrawals."

It will be observed from these instructions that it is contemplated that the Postal Savings System at an early date will adjust its deposits in all depository banks to a time basis; and, inasmuch as the contract under which postal savings funds are deposited in depository banks requires the payment of interest on such deposits, it is permissible under the law for a member bank, which was a party to such a contract in force on June 16, 1933, to continue to pay interest on postal savings funds until such time as it is possible for the member bank consistently with such contract to eliminate the provision for the payment of interest on these funds or to change them to a time deposit basis.

Very truly yours,

Chester Morrill,  
Secretary.