

## (Interpretation of Banking Act of 1933)

Copies to be sent to all Federal Reserve Banks.

July 12, 1933.

Olson - Denver

President \_\_\_\_\_ of (a national bank) discussed with Governor Black on July 7 question of payment by a member bank of premium on bonds securing deposits of public funds and left with him a copy of letter addressed to you by \_\_\_\_\_ Clearing House Association dated June 27 on this subject. Board understands that amount of premium paid by member bank on such a bond is a certain prescribed percentage of the average amount of such funds on deposit with such bank over period covered by the bond with provision for a minimum premium where the average amount is less than a certain amount fixed in advance. In view of fact that amount paid by member bank in form of premium on such bond in usual case is a fixed percentage of the amount of such funds on deposit in the bank, it is Board's opinion that payment of such premium constitutes an indirect payment of interest on such deposit within the meaning of the provision of section 19 of the Federal Reserve Act as amended by section 11(b) of the Banking Act of 1933 prohibiting the payment of interest on deposits payable on demand. Attention is called to the fact, however, that provision in question does not apply 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. Please advise Mr. \_\_\_\_\_ and \_\_\_\_\_ Clearing House Association of the views of the Federal Reserve Board as above expressed.

MORRILL