

(INTERPRETATION OF BANKING ACT OF 1933) July 13, 1933.

Copies to be sent to all Federal Reserve Banks.

Walsh
Dallas

Re your inquiry whether verbal agreement to pay interest on demand deposits for fixed period is QUOTE contract UNQUOTE within meaning of paragraphs B and C of Trans. number 1826. You are advised that the determinative factor is not whether agreement to pay interest is written or oral, but whether the particular bank is under a binding obligation to pay interest on a demand deposit in accordance with a bona fide agreement, whether oral or written. Accordingly, if an oral agreement to pay interest on demand deposits, which was entered into in good faith and in force on June 16, 1933, is a valid and binding obligation of the bank, interest may be paid in accordance with the terms thereof. Conversely, if contract in respect to payment of interest on demand deposits, whether oral or written, is subject to cancellation at option of bank and without liability on part of bank, it must be canceled as soon as possible. However, it seems probable that, in most instances of an alleged oral contract, the agreement or understanding to allow interest would not be sufficiently definite in respect to the interest period, the amount of interest, and other essentials to constitute it a valid and binding contract. Therefore, in any case in which interest on deposits payable on demand is allowed under an alleged oral contract, the bank so allowing interest, if requested to do so, must be able to show clearly to the satisfaction of the examiner duly authorized to examine such bank, or to the Federal Reserve Board, or to any other duly constituted authority

that such agreement could not have been terminated legally by such bank at its option and without liability. Of course, no such contract may be renewed or extended without eliminating the provisions for payment of interest.

Morrill