

Copies to be sent to all Federal reserve banks.

July 22, 1933.

Mr. _____, Corporation Counsel,
City of _____,
_____, _____.

Dear Sir:

Receipt is acknowledged of your letter, under date of July 13, 1933, which was addressed to the Honorable _____, United States Senator, and referred by Senator _____ to the Federal Reserve Board for reply. You raise the question whether (a national bank) may pay interest on deposits made by the City of _____ which are payable on demand.

Section 19 of the Federal Reserve Act, as amended by section 11(b) of the Banking Act of 1933, reads in part as follows:

"No member bank shall, directly or indirectly by any device whatsoever, pay any interest on any deposit which is payable on demand; Provided, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract heretofore entered into in good faith which is in force on the date of the enactment of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: Provided, however, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located in a foreign country, and shall not apply 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."

Under the provisions quoted, a member bank may not pay interest on a deposit payable on demand, unless it is obligated to do so under a bona fide and binding contract, which was in force on June 16, 1933, or unless the deposit in question is one of a class excepted by statute. The statutory prohibition against payment of interest on deposits payable on demand does not apply to a deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, provided that payment of interest with respect to such deposit is required under State law.

In accordance with such provisions and in the absence of a State law requiring such payment of interest, the (a national bank) may not pay interest on any deposit of such bank made by or on behalf of the City of _____ which is payable on demand, unless the bank is obligated to do so under a valid and binding contract which was entered into in good faith and was in force on June 16, 1933.

Two copies of the Banking Act of 1933 are inclosed herewith.

Very truly yours,

Chester Morrill,
Secretary.

Inclosure.