

## (INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks .

August 29, 1933.

Honorable George H. Dern,  
Secretary of War,  
Washington, D. C.

My dear Mr. Secretary:

Reference is made to your letter of July 6, 1933, in which you submit the question whether, under the provisions of Section 19 of the Federal Reserve Act, as amended by Section 11(b) of the Banking Act of 1933, the \_\_\_\_\_ Bank of the City of \_\_\_\_\_, a member bank of the Federal Reserve System, may pay interest on funds of the Government of the Philippine Islands deposited with such bank, subject to payment on demand, under the provisions of an agreement entered into between the bank and the Secretary of War, a copy of which was inclosed with your letter.

Under the terms of the agreement, the bank agreed to receive on deposit, safely keep, and properly account for all moneys deposited with it from time to time by representatives of the Government of the Philippine Islands, to pay promptly checks against such deposits, and to pay over all balances of funds so received when called upon to do so. The rate of interest paid by the bank on deposits made under this agreement has been changed from time to time by supplementary agreements, effected by letters exchanged between the Chief of the Bureau of Insular Affairs, under authority of the Secretary of War, and the \_\_\_\_\_ Bank. The agreement contains no provision as to the period for which it shall be effective or as to the date upon which it shall terminate,

but the Government of the Philippine Islands has the right to terminate the agreement at any time without notice or liability to the bank.

Section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, provides 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."

It will be noted that the law obviously contemplates that any contract of a member bank for the payment of interest on deposits payable on demand, which was entered into prior to the date of enactment of the Banking Act of 1933, June 16, 1933, and in effect on that date, should be terminated by such bank as soon as possible after that date, if legally possible to do so under the contract.

After a careful consideration of this matter, it is the view of the Federal Reserve Board that the \_\_\_\_\_ Bank may at any time lawfully terminate the agreement submitted with your letter, upon giving reasonable notice to the duly constituted representatives of the Government of the Philippine Islands of its intention to terminate such contract; and that, accordingly, it became the duty of the \_\_\_\_\_

Honorable George H. Dern

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Bank to terminate or modify the contract as soon as possible after June 16, 1933 so as to eliminate any provision for the payment of interest on deposits payable on demand. After such modification of the contract, no interest may be paid on deposits which have been received under its provisions and which are payable on demand.

The opinion of the Federal Reserve Board on a question of this kind, as you know, does not necessarily constitute a final determination of the rights of the parties to the transaction and does not prevent any party who may desire to do so from obtaining a determination of any such question which may be of a justiciable character in a court of competent jurisdiction.

A copy of this letter is being transmitted to the \_\_\_\_\_  
Bank for its information in this connection.

Very truly yours,

Chester Morrill,  
Secretary.