

(INTERPRETATION OF BANKING ACT OF 1933)

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Copies to be sent to all Federal reserve banks.

August 30, 1933.

Mr. _____, President.
The _____ Bank,
_____.

Dear Sir:

Reference is made to your letter of July 15, 1933, in which you raise the question whether your bank is required under the provisions of section 19 of the Federal Reserve Act as amended by section 11(b) of the Banking Act of 1933 to pay interest accruing after June 16, 1933 on deposits of Postal Savings Funds which are payable on demand.

The Federal Reserve Board understands that prior to June 16, 1933, your bank agreed to comply with the regulations of the Postal Savings System governing the deposit of Postal Savings Funds in banks, and that this agreement was in effect on that date. Under the provisions of the regulations (edition of October 1931) relating to the deposit of Postal Savings Funds, banks which have qualified to receive deposits of such funds are required to pay interest thereon at a stipulated rate and a bank surrendering its Postal Savings deposits is required to credit the interest due on the date its account is closed. The Board of Trustees of the Postal Savings System may make changes in the rate of interest to be paid by the banks as it may deem proper. The regulations apparently contain no provision as to the period for which such an arrangement shall continue or the date upon which it shall terminate, but the funds on deposit may be withdrawn by the Board of Trustees at any time. The regulations further provide that whenever a bank desires to relinquish the whole or a part of its Postal Savings deposits it shall

notify the Third Assistant Postmaster General and comply with certain other requirements, and the Third Assistant Postmaster General will direct the bank as to the disposition to be made of the relinquished deposits.

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 a member bank in which Postal Savings Funds have been deposited subject to the provisions of the regulations of the Postal Savings System (edition of October, 1931) may, at any time, lawfully terminate the contract for the receipt and holding of such deposits and the payment of interest thereon upon compliance with the

provisions of the regulations with respect to the relinquishment by such bank of the whole of its Postal Savings deposits; and that accordingly, it became the duty of such a member bank as soon as possible after June 16, 1933, to take such action as may be necessary to terminate the contract or 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.

Very truly yours,

(Signed) Chester Morrill,

Chester Morrill,
Secretary.