

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 27, 1933.

Mr. George J. Seay, Governor,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Governor Seay:

Reference is made to your letter of August 12, 1933, in which you submit certain comments with reference to the tentative draft of the Board's regulation relating to payment of interest on deposits by member banks. You state that the banks in your district have outstanding a large number of certificates of deposit which are of indefinite maturity but in which the banks have reserved the right to require notice of thirty day or more before payment, and you inquire whether under the terms of the Board's regulation on this subject, which as you have been advised in a separate letter has not become effective, interest may be paid on such certificates of deposit. It is understood that, although the banks have the right to require notice before payment of such certificates, it has not been their usual practice to do so.

You will observe that, under the provisions of footnote 4 of the Board's regulation, interest may not be paid on a certificate of deposit with respect to which the bank merely reserves the right to require notice before payment. However, under other provisions of the regulation, a member bank may pay interest in accordance with the terms of any certificate of deposit which was lawfully entered into in good faith prior to June 16, 1933, and in force on that date and

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which may not lawfully be terminated or modified by such bank at its option or without liability; but no such certificate of deposit may be renewed or extended unless it be modified to conform to the provisions of the regulation, and every member bank is required to take such action as may be necessary as soon as possible consistently with its contractual obligations to bring all such certificates of deposit into conformity with the provisions of the regulation.

The certificates of deposit which you describe are of indefinite maturity but, in the absence of a provision in such a certificate to the contrary, it would seem to the Board that a member bank may lawfully terminate the contract contained in the certificate at any time upon paying the amount due to the depositor after giving reasonable notice to him of its intention to terminate the arrangement; and that, accordingly, it is the duty of such a member bank to terminate or to modify such a certificate of deposit as soon as possible so as to bring it into conformity with the provisions of the regulation. No interest accruing after such modification or termination of the certificate may be paid on any deposit represented thereby, unless the certificate then conforms to the requirements of the regulation in this connection.

Unless, therefore, there is some provision in the certificates of deposit to which you refer which would indicate an intention of the parties that the bank may not terminate the contract contained in such a certificate at its option and without liability, it is suggested that you advise member banks in your district which have such certificates outstanding that they should terminate or modify such certificates of

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deposit as above stated after giving reasonable notice to the depositors of their intention to do so.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.