

X-7626

(INTERPRETATION OF BANKING ACT OF 1933)

Copies to be sent to all Federal reserve banks.

September 29, 1933.

Mr. M. L. McClure,
Federal Reserve Agent,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. McClure:

Reference is made to your letter of September 8, 1933, in which you state that subsequent to June 16, 1933, a number of member banks continued to issue time certificates of deposit and other time deposit contracts on the same terms and conditions as theretofore, without making any stipulation in such contracts that the rate of interest stated therein would be subject to adjustment to conform to such regulations as might be issued by the Federal Reserve Board. You state that these agreements for the payment of interest were entered into in good faith, and you present the question whether member banks which issued such time certificates of deposit or other time deposit contracts subsequent to June 16, 1933, providing for payment of interest at a rate in excess of the maximum prescribed in the Board's Regulation Q for a period extending beyond October 31, 1933, may pay interest accruing after that date at the rate prescribed in such certificates or contracts.

Member banks which issued certificates of deposit or other time deposit contracts subsequent to June 16, 1933, did so presumably with knowledge of the provisions of the Banking Act of 1933

Mr. M. L. McClure

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requiring the Federal Reserve Board to limit by regulation the rate of interest which may be paid by member banks on time deposits. Such certificates and contracts therefore must be considered to have been made in contemplation of this requirement of the law and with notice that the rate of interest provided therein would be subject to change to conform to the rate to be prescribed by the Board. Accordingly, it is the opinion of the Board that member banks may not pay interest accruing after October 31, 1933, at a rate in excess of that prescribed in Regulation Q, in accordance with certificates or contracts which were entered into after June 16, 1933 although such certificates or contracts provide for the payment of interest at a rate in excess of that prescribed in the regulation

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.