

FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO
THE FEDERAL RESERVE BOARD

X-7680

November 15, 1933.

SUBJECT: Payment of Interest on Deposits of
Public Funds by State Banks Applying
for Membership.

Dear Sir:

In reviewing applications for membership in the Federal Reserve System submitted to the Federal Reserve Board, it has been noted that in many instances the applicant bank pays interest on certain public accounts. As you know, section 19 of the Federal Reserve Act, as amended by the Banking Act of 1933, prohibits a member bank, except as stated therein, from paying interest on deposits which are payable on demand. Accordingly, if the public accounts above referred to are demand deposits and do not come within the exceptions to section 19, the payment of interest thereon by a State bank after it becomes a member of the Federal Reserve System would be unlawful.

In certain letters to the Federal Reserve Agents advising of approval of applications for membership, the Board has called attention to this situation and has requested the Agent to bring the matter to the attention of the management of the applicant bank.

You are requested to take similar action in all such cases arising in your district. In the future, therefore, no comment of this nature will be made in the letters to the Federal Reserve Agents advising of approval of applications for membership.

Very truly yours,

Chester Morrill

Chester Morrill,
Secretary.