

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

January 16, 1934.

Mr. \_\_\_\_\_,  
\_\_\_\_\_  
\_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

This refers to your letter of January 4, 1934, addressed to the President of The \_\_\_\_\_ National Bank of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, a copy of which you have forwarded to the Board's General Counsel with a request for the opinion of the Board with respect to the question therein presented.

It appears from your letter to the member bank that an ordinance of the City of \_\_\_\_\_, \_\_\_\_\_, undertakes to require the payment of interest on deposits of municipal funds which are payable on demand. It also appears that the legislature of the State of \_\_\_\_\_ has not provided that the city shall impose this requirement, but has simply conferred upon the City of \_\_\_\_\_, in its charter, a discretion as to whether or not its funds shall be deposited under arrangements providing for the payment of interest. In these circumstances, the member bank requests to be advised whether such ordinance constitutes "State law" within the meaning of that provision of Section 19 of the Federal Reserve Act as amended which excepts from the prohibition upon the payment of interest upon deposits payable on demand deposits of public funds "with respect to which payment of interest is required under State law."

It may be conceded that for certain purposes a municipal ordinance may be regarded as "State law", as, for example, within the meaning of that provision of the Federal Constitution which prohibits the impairment of the obligation of contracts. As a general rule, however, the term "State law" does not include a municipal ordinance, and the term may be used to indicate the law of the State declared by the State legislature, as distinguished from the local law declared by cities, counties, and other political subdivisions of the State. The fact that in other provisions of the Federal Reserve Act Congress employed the phrase "State or local law" appears to indicate that Congress had this distinction in mind.

Accordingly, having in mind the general rule that an exception to a statutory provision should be strictly construed, it is the opinion of the Federal Reserve Board that a municipal ordinance is not "State law" within the meaning of the provision of the Federal Reserve Act here in question.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.