

X-7793

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

February 3, 1934.

Mr. _____,
 _____,
 _____.

Dear Sir:

This refers to your letter of January 12, 1934, in which you request to be advised whether a member bank of the Federal Reserve System may lawfully issue a time certificate of deposit payable in ninety days and bearing interest at the rate of 3 per cent per annum. You suggest that if the interest so paid on such a certificate be added to the renewal of the certificate, the amount of interest ultimately paid would appear to exceed the maximum rate now allowed under the Federal Reserve Board's Regulation Q.

Inasmuch, however, as an original certificate of deposit and a renewal certificate must be regarded as separate contracts, it is the view of the Federal Reserve Board that the payment of interest at the rate of 3 per cent per annum on a time certificate payable at the expiration of ninety days or at the expiration of any other period (not less than thirty days), whether such interest is paid in cash at maturity or added to the renewal certificate, does not constitute a violation of Section III(c) of Regulation Q, which provides that no member bank shall pay interest, accruing after October 31, 1933, on any time deposit or any part thereof at a rate in excess of 3 per cent per annum, compounded semiannually. In this connection, it should be

noted that if such a certificate is reissued, no interest may lawfully be paid for the period between the date of maturity of the original certificate and the date on which the renewal certificate is actually issued.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.