

## FEDERAL RESERVE BOARD

WASHINGTON

ADDRESS OFFICIAL CORRESPONDENCE TO  
THE FEDERAL RESERVE BOARD

X-7816

March 9, 1934.

SUBJECT: Deposits the Time of Payment of Which  
Has Been Deferred Beyond the Period  
Originally Contemplated.

Dear Sir:

The question has been raised in several cases presented to the Board for consideration whether the provision of Section 19 of the Federal Reserve Act that "no member bank shall pay any time deposit before its maturity" is applicable with respect to deposits which were originally received by a member bank either as demand deposits, savings deposits or ordinary time deposits but which prior to June 16, 1933, as a part of a general plan applicable to all or a large proportion of the deposits of the bank and entered into in order to prevent closing of the bank, to rehabilitate the bank, or for some similar purpose, were deferred as to time of payment beyond the period originally contemplated, either by agreement with depositors or otherwise. The specific question presented is whether the provision of law in question prevents the payment or the making available for withdrawal by a member bank of deposits of the kind mentioned, before the date specified at the time of deferment, when it is done as a part of a general plan applicable to all of the deferred deposits in the bank on a pro rata basis or, in case there is

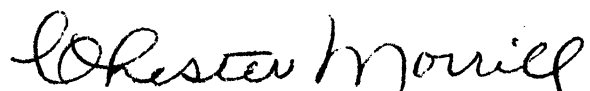
more than one class of such deferred deposits, to all of the deposits of one or more classes thereof on a pro rata basis.

Deposits of the kind under consideration are not time deposits of the ordinary type arising in the usual course of a bank's business. They are deposits of an extraordinary character arising out of transactions under which all or a large part of the deposits in the bank are affected. The payment of such deposits in the manner described is likewise an extraordinary transaction not arising in the usual course of business. Such deposits also are not subject to the contract contemplated by the parties at the time the original deposits were made. One of the purposes of legislation by Congress enacted during the past year has been to free bank assets and to provide funds to increase purchasing power; and in the circumstances it is not believed that payment of such deposits in the manner described comes within the spirit or purpose of the prohibition upon the payment of time deposits by a member bank before their maturity.

While it is recognized that the question may be the subject of some doubt, the Federal Reserve Board after careful consideration and in view of the purpose of the statute, has reached the conclusion that the law is not to be interpreted as preventing a member bank whose financial condition justifies such action from paying or making available for withdrawal deposits of the kind above described, before the date specified at the time of deferment of such deposits, as a part of a general plan entered into in good faith which is

applicable to all of the deferred deposits in the bank on a pro rata basis or, in case there is more than one class of such deferred deposits, to all of the deposits of one or more classes thereof on a pro rata basis.

Very truly yours,

A handwritten signature in cursive script that reads "Chester Morrill".

Chester Morrill,  
Secretary.

TO ALL FEDERAL RESERVE AGENTS.