

X-7854

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

April 4, 1934

_____,
_____,
_____.

Dear Sir:

This refers to your letter to the Comptroller of the Currency, dated March 5, 1934, which has been referred to the Federal Reserve Board for reply.

It is understood that in a safe deposit box in your bank there is a time certificate of deposit, payable at the expiration of 6 months from the date thereof, which is owned by a customer who lives in a place several hundred miles distant from _____. Apparently the customer wishes to continue the deposit on a time basis after the maturity of the original certificate, but desires to avoid the expense which would be incurred if he should be required to present the original certificate in person as a prerequisite to obtaining a renewal certificate evidencing this deposit. You request to be advised whether, if the bank holds the original certificate for an additional 6 months after its maturity, the certificate may be considered to have been renewed, although no record of an extension of the same is made on the books of the bank.

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Section III, subparagraph (e) of the Board's Regulation Q provides in part that after the date of maturity of any time deposit, such deposit is a deposit payable on demand, and no interest may be paid on such deposit for any period subsequent to such date. It is the view of the Board that the procedure which you suggest would not be sufficient to take the deposit in question out of the scope of that provision of the regulation, and that in the circumstances stated the prohibition against the payment of interest would be applicable to such deposit after the date of maturity of the original certificate. However, if your bank and the customer enter into a valid written contract evidenced by letters exchanged between the parties or other written instruments and in accordance with which neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30 days after the date of the deposit, or on written notice which must be given by the depositor a certain specified number of days in advance, in no case less than thirty days, the Board will offer no objection to the payment of interest on such deposit, at a rate not in excess of that prescribed in Regulation Q, from the date such agreement is entered into until the date of maturity of such deposit. Of course, interest may be paid on such deposit for the period prior to the date of maturity of the original certificate during which such deposit conformed to the requirements of a time deposit as set forth in the Board's Regulation Q.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.