

X-9049

F E D E R A L R E S E R V E B O A R D

STATEMENT FOR THE PRESS

For release in morning papers,
Monday, December 17, 1934.

December 15, 1934.

REDUCTION IN INTEREST RATE ON TIME AND SAVINGS DEPOSITS

The Federal Reserve Board has reduced from 3% to $2\frac{1}{2}\%$ the maximum rate of interest that may be paid on time and savings deposits by member banks, and the Federal Deposit Insurance Corporation has made a corresponding reduction in the maximum rate that may be paid by State banks and trust companies which are insured by the Corporation. The new maximum rate will become effective on February 1, 1935. The reduction in the deposit rate is in harmony with the prevailing downward trend in interest rates, and is expected to support that trend, particularly in regard to rates on long-time money, which are an important factor in business recovery.

The reduction is in line with the action taken by State banking authorities in several States and also with voluntary agreements made by clearing house associations and other banking groups. The decrease in rates on time deposits should have a tendency to bring about a decline in the cost to borrowers and to encourage depositors to seek investment for their idle funds. A more favorable capital market may be expected to create a more favorable mortgage market as well as encourage refunding operations and the undertaking

of new capital projects generally, a development essential to recovery.

The Federal Reserve Board's action in this matter is in accordance with the duty imposed upon it by the Banking Act of 1933, which provides that "The Federal Reserve Board shall from time to time limit by regulation the rate of interest which may be paid by member banks on time deposits." This provision of the law places upon the Federal Reserve Board the responsibility of raising or lowering from time to time the maximum rate that may be paid by member banks on time and savings deposits in accordance with prevailing economic conditions and the requirements of the public interest.

The Federal Reserve Board's Regulation Q, as amended to reduce the maximum rate to $2\frac{1}{2}\%$, will appear in the December issue of the Federal Reserve Bulletin.

In addition to the amendment reducing the maximum rate of interest to $2\frac{1}{2}\%$, the regulation, as amended, will (1) permit the computation of interest on time and savings deposits at a rate not in excess of $2\frac{1}{2}\%$ compounded quarterly instead of (as provided in the old regulation) at a rate not in excess of the maximum compounded semi-annually, (2) enable member banks to pay interest on time and savings deposits received during the first five days of any calendar month at the maximum rate prescribed in the regulation calculated from the first day of the month, and (3) permit foreign branches of American banks to obtain authority from the Board to pay interest on time and savings deposits at rates consistent with competitive conditions prevailing in the

localities where the foreign branches are situated. The action of the Board does not affect the payment of interest by member banks at a rate higher than the maximum in accordance with the terms of any contract legally entered into prior to and in force on December 18, 1934.