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

STATEMENT FOR THE PRESS

For immediate release December 26, 1934.

Governor Eccles of the Federal Reserve Board today issued the following statement:

A misapprehension has arisen with respect to the scope of and the authority for the action recently taken by the Federal Reserve Board limiting after February 1, 1935, the maximum rate of interest that may be paid on time and savings deposits by member banks to 2-1/2%. The misunderstanding appears to have arisen because the statement announcing the Board's action also carried with it a reference to the action taken by the Federal Deposit Insurance Corporation reducing the time deposit rate for insured non-member banks and trust companies to 2-1/2%.

The Board's statement carried this reference because there was abundant reason for believing that both member banks and their depositors would be vitally concerned by the rates of interest which might be paid by competing non-member banks.

The action taken by the Federal Reserve Board in limiting the rate of interest that banks might pay on deposits was taken in accordance with the provision of the Banking Act of 1933 requiring the Federal Reserve Board from time to time to "limit by regulation the rate of interest which may be paid by member banks on time deposits."

Its recent action, like similar action taken on August 29, 1933, related only to member banks. The Federal Reserve Board has never assumed that it had authority to regulate the rate of interest paid by non-member banks. It clearly has no authority to do so. Such jurisdiction as the Federal Government exercises over the non-member insured banks rests with the Federal Deposit Insurance Corporation. On December 15 the Federal Reserve Board was advised that the Board of Directors of the Federal Deposit Insurance Corporation had reduced the maximum time deposit rate for insured non-member banks and trust companies to 2-1/2%.

The action of the Federal Reserve Board in reducing interest rates for member banks and the action of the Federal Deposit Insurance Corporation in reducing the interest rates for insured non-member banks were taken separately, not jointly.

The recent action of the Federal Deposit Insurance Corporation was similar in character to the action it took on January 1, 1934, when it issued a regulation limiting to 3% the maximum rate of interest which might be paid by any non-member bank whose deposits were insured by that Corporation.

In the summer of 1934, in view of the fact that the trend of interest rates had been steadily downward, the Board undertook a further review of interest rates in accordance with the duty imposed upon it by the Banking Act of 1933. Before taking action the Board communicated with all the Federal reserve banks in order to have the benefit of their views as to the advisability of a further reduction of the deposit rate. The replies received from the reserve banks were almost unanimous to the effect that a reduction of deposit rate to 2-1/2% would be in the public interest. In view of these replies and its own independent analysis and study of the situation the Federal Reserve Board determined that a further reduction of 1/2 of 1% in the rate which might be paid by member banks on time deposits would be advisable.

It is worth noting in this connection that the maximum rate on time deposits in Canada at the present time is 2 per cent and in England it is 1/2 per cent in London and 1-1/2 per cent in the country.