BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Statement for the Press

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ISSUANCE OF REGULATIONS Q, D and I.

The Board of Governors of the Federal Reserve System has issued, effective January 1, 1936, a revision of Regulation Q relating to payment of interest by member banks of the Federal Reserve System on time and savings deposits. Heretofore the maximum rate payable by member banks on both time and savings deposits was $2\frac{1}{2}$ per cent per annum. Under the new regulation the maximum rate payable on savings deposits continues to be $2\frac{1}{2}$ per cent but with regard to time deposits the following schedule of maximum rates has been prescribed: On time deposits payable in not less than 6 months, $2\frac{1}{2}$ per cent; on time deposits payable in less than 6 months and not less than 90 days, 2 per cent; and on time deposits payable in less than 90 days, 1 per cent.

The reason for this reduction in the maximum rate payable upon time deposits is that under present conditions banks cannot afford to pay higher interest rates than those fixed in the new regulation on funds deposited for short terms.

The maximum rate payable on Postal Savings funds, which are time deposits, continues to be $2\frac{1}{2}$ per cent, or such lower rate as State banks are permitted to pay under State laws.

The revised regulation is accompanied by a separate supplement stating the schedule of maximum rates. The use of such supplements will enable the Board to change the maximum rates from time to time in order to meet changing conditions without the necessity of amending the regulation or issuing a new regulation.

Definition of Savings Deposits

The definition of savings deposits in the new regulation has been revised in order to eliminate two provisions of the definition in the former regulation which have proven unsatisfactory, namely, the requirement that savings deposits shall consist of funds accumulated for "bona fide thrift purposes" and the requirement that the pass book must be presented whenever a withdrawal is made.

In lieu of the requirement that savings deposits shall consist of funds accumulated for bona fide thrift purposes, there has been substituted a requirement that savings deposits shall consist of funds of one or more individuals or of an organization operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes and not operated for profit.

The provision regarding the presentation of pass books has been liberalized so as to permit withdrawals through payment to any authorized person presenting the pass book and to permit withdrawals without presentation of the pass book where payment is made to the depositor in person or is remitted by an instrument payable to the depositor. The purpose of this provision is to enable member banks to take care of all cases in which there is a legitimate reason why the pass book cannot be presented and yet to forbid the practice which has existed in certain sections of the country of drawing checks on savings deposits, thus using them as ordinary commercial accounts and evading the statutory prohibition against payment of interest on demand deposits.

Definition of Interest

Under the authority conferred upon the Board by the Banking Act of 1935 to define certain terms, the term "interest" is defined in the new regulation as a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for a deposit and which involves the payment or absorption by the bank of out-of-pocket expense, regardless of whether such payment, credit, service or other thing of value varies with or bears a substantially direct relation to the amount of the depositor's balance. The new definition expressly provides that the payment or absorption of exchange or collection charges which involve out-of-pocket expenses constitutes the payment of interest. An exception is made of taxes upon deposits, premiums on bonds securing deposits where such bonds are required by or under authority of law; and isolated items of out-of-pocket expense in trivial amounts under certain circumstances. Where such isolated items are paid or absorbed the bank is required to keep a record of such items and to make such record available to bank examiners.

Payment of Time Deposits before Maturity in Emergencies

Prior to the enactment of the Banking Act of 1935, section 19 of the Federal Reserve Act provided that no member bank could pay any time deposit before maturity. The Banking Act of 1935 amended section 19 so as to permit the payment of time deposits before maturity "upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board". In accordance with this authority, the revised Regulation Q permits the payment of time deposits before maturity in an emergency where it is necessary to prevent great hardship to the depositor. As a condition to such payment, the depositor must sign an application describing fully the circumstances constituting the emergency, which statement must be approved by an officer of the bank and retained in the bank's files and made available to examiners authorized to examine the bank. The depositor is also required to forfeit accrued and unpaid interest on the amount withdrawn for a period of not more than 3 months.

Loans by the depositary bank to its depositors on the security of time or savings deposits are permitted under the new regulation provided that the rate of interest on such loans shall be not less than 2 per cent per annum in excess of the rate of interest on the deposits securing them.

Regulations D and I

The Board has also, effective January 1, 1936, issued a revision of Regulation D relating to the reserves which member banks are required to carry with the Federal Reserve banks, and a revision of Regulation I relating to the issuance and retirement of Federal Reserve bank stock. These regulations have been revised to conform to a number of changes in the law, largely of a technical character, made by the Banking Act of 1935.

Reserve requirements have not been changed in the revised Regulation D but, in accordance with the authority conferred upon the Board by the Banking Act of 1935 to change reserve requirements, the revised regulation provides that the actual net balance which each member bank is required to maintain on deposit with the Federal Reserve bank of its district shall be changed by such percentage, within the limits prescribed by law, as the Board shall prescribe from time to time in order to prevent injurious credit expansion or contraction.