

X-9419

INTERPRETATION OF BANKING ACT OF 1933

(Copies to be sent to all Federal reserve banks)

December 23, 1935.

Mr. _____, President,
The _____ National Bank,

_____.

Dear Sir:

This refers to your letter of December 2, 1935, regarding the ruling published at page 609 of the September, 1934 Federal Reserve Bulletin with respect to the renewal of certificates of deposit prior to maturity. That ruling reads, in part, as follows:

"It appeared that the practice described involves merely the making of a new contract of deposit which is to take effect on the date of maturity of the original certificate and that no part of the funds evidenced by the original certificate is withdrawn until the maturity of the renewal certificate. In the circumstances the Federal Reserve Board stated that there is no provision of law which would preclude adoption of this procedure, and the Board has no objection thereto."

It is understood that you wish to know whether in such a situation your bank may pay the interest on the original certificate of deposit at the time of the renewal prior to the maturity of the original certificate.

Of course, the payment of interest before it has actually accrued amounts to the payment of a somewhat higher rate than if the interest were paid after its accrual; and in paying interest on a certificate of deposit prior to the maturity of the certificate your bank should not pay a rate of interest in excess of that permitted under

the Board's Regulation Q which relates to the payment of deposits and interest thereon. There is also the possibility that interest might become payable and, by agreement of the parties, be added to a deposit in such a manner as to become a portion thereof and become subject to the same provisions with respect to withdrawal as the other portions of the deposit. However, if the permissible rate of interest is not exceeded and the interest has not become payable and been added to the deposit in such a manner as to become a portion thereof, there is no prohibition in either the law or the regulation against the payment of interest on a certificate of deposit before the maturity of the certificate.

If you have any further inquiries in this connection, it is suggested that you communicate with the Federal Reserve Bank of _____ which will be glad to advise you regarding such matters.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.