

INTERPRETATION

X-9420

BANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

January 6, 1936.

Mr. W. H. Fletcher,
Acting Federal Reserve Agent,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Fletcher:

This refers to your letter dated December 10, 1935, with reference to the question whether a member bank is required to terminate or modify certificates of deposit of indefinite maturity, of the type inclosed in your letter, in order to conform to the provisions of the supplement to Regulation Q, as revised effective January 1, 1936.

It is understood that the certificate to which you refer is payable at any time upon 31 days' written notice of intended withdrawal. The certificate contains the following provision: "Interest payable for full months only at two per cent per annum, if left six months or longer."

In its letter dated September 27, 1933 (X-7622) the Board stated that it is the duty of a member bank to terminate or modify a certificate of deposit of indefinite maturity as soon as possible so as to bring it into conformity with the provisions of Regulation Q. Such letter also contained the following paragraph:

"Unless, therefore, there is some provision in the certificates of deposit to which you refer which would indicate an intention of the parties that the bank may not terminate the contract contained in such a certificate at its option and without liability, it is suggested that you advise

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member banks in your district which have such certificates outstanding that they should terminate or modify such certificates of deposit as above stated after giving reasonable notice to the depositors of their intention to do so."

It seems possible that the provision in the certificate of deposit under consideration, to the effect that interest is payable upon the certificate only if the funds are left on deposit six months or longer, may indicate an intention of the parties that the bank may not terminate the contract contained in the certificate at its option and without liability prior to the expiration of such six months' period. Otherwise, the bank could keep the deposit for five months and then terminate the contract and escape from payment of interest for such five months' period.

Without attempting to determine whether such an intention is indicated by the above-mentioned provision, the Board will offer no objection to the payment by a member bank on a certificate such as that inclosed in your letter, which was outstanding on December 1, 1935, of interest at the rate of two per cent per annum until the expiration of six months from the date on which the deposit was made.

Very truly yours,

Chester Morrill,
Secretary.