

INTERPRETATION

X-9479

BANKING ACT OF 1935

(Copies to be sent to all Federal Reserve banks)

January 30, 1936.

\_\_\_\_\_,  
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 \_\_\_\_\_,  
 \_\_\_\_\_.

Dear Sir:

Reference is made to your letter dated January 8, 1936, addressed to Senator \_\_\_\_\_, regarding the question whether a business corporation may maintain a savings deposit in a member bank of the Federal Reserve System. Your letter has been referred by Senator \_\_\_\_\_ to the Board of Governors of the Federal Reserve System for reply.

The Banking Act of 1935 conferred upon the Board authority to define the term "savings deposits" and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of the law and prevent evasions thereof. This authority was granted in order to enable the Board to correct certain well-recognized abuses which had grown up in connection with savings deposits.

As you may know, member banks are forbidden by law to pay interest on demand deposits or to pay time deposits before maturity, except in certain exceptional circumstances. However, member banks are permitted to pay savings deposits on demand, provided they retain the right to require thirty days' notice of withdrawal, and are also permitted to pay interest on such deposits. In addition, member banks

are permitted to carry with the Federal Reserve banks a reserve of only 3 per cent against savings deposits, although they are required to carry reserves of 7, 10, or 13 per cent, depending upon the location of the bank, against all other deposits which are payable on demand.

It will be seen from the above that savings deposits are an exceptionally favored class of deposits having special privileges not granted to any other class of deposits. These privileges are granted to such deposits because of the desire to encourage thrift. However, the granting of this favored status to savings deposits has led to certain abuses by member banks, chief of which were the classification of ordinary demand deposits as savings deposits in order to pay interest on such funds and to carry the lower reserves against them, and the classification of idle funds of business corporations as savings deposits even though such funds were not accumulated for the purposes sought to be encouraged by the favored status given to savings deposits.

It is believed that "savings deposits" in the true meaning of the term are deposits which consist of the accumulation of savings of individuals, usually of limited financial means, in order to provide for sickness, accident, old age or other exigencies, to meet anticipated expenses, or for other similar purposes, and, although there are certain non-profit organizations which may properly be included in the class of those who are afforded the privilege of maintaining savings deposits, it is not believed that funds of corporations operated for profit fall within this category. Accordingly, in section 1(e) of Regulation Q the Board has provided that a savings deposit

must consist of the 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.

It is hoped that the above explanation of this matter will answer the question which you have in mind as to the basis for the distinction in the definition of savings deposits between deposits of individuals and those of organizations operated for profit.

With reference to your statement that the member bank had informed you that the deposit of your corporation must be placed in a checking account, it should be noted that although Regulation Q does not permit deposits of a business corporation to be classified as savings deposits, there is nothing in such regulation to prevent a business corporation from placing its funds in an interest-bearing time deposit.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,  
Secretary.