

INTERPRETATIONBANKING ACT OF 1935

(Copies to be sent to all Federal reserve banks)

February 27, 1936.

Mr. J. H. Case,
Federal Reserve Agent,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

This refers to your letter of February 15, 1936, presenting certain questions arising under the provisions of Regulation Q.

You ask to be advised of the Board's views upon the question whether deposits of municipalities and subdivisions or departments thereof, such as sinking fund commissions, boards of education, and police and fire departments, and deposits of funds of a municipality set aside for playground and other similar purposes, may be classified as savings deposits under the definition contained in section 1(e) of Regulation Q. In the opinion of the Board, deposits of the type described above may not be classified as savings deposits within the meaning of section 1(e) of Regulation Q because municipal corporations may not be considered as organizations operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, nor may it be considered that the beneficial interest in deposits of such corporations is in one or more individuals.

The Board is also of the opinion that a deposit in the name of a municipality consisting of funds given to the municipality for a charitable purpose, such as the erection of a memorial gate, may not be classified as a savings deposit. The Board believes that a construction of the regulation which would permit funds of a municipal corporation held for a charitable purpose to be considered as funds held for one or more individuals on the theory that the public consists of a group of individuals would open the door to evasions of the regulation. As indicated in your letter, such a construction would seem to involve an extension of the language of the regulation, which bases the privilege of maintaining a savings deposit upon the nature of the depositor or the person holding the beneficial interest in the deposit rather than upon the purpose for which the funds are to be used.

With regard to deposits of close corporations operated for profit, where all of the stock of the corporation is owned by one individual or by members of a family, the Board agrees with your opinion that such deposits may not be classified as savings deposits under the definition contained in section 1(e) of Regulation Q.

You also present the following question arising under section 4(d) of Regulation Q: If a time deposit which has been such for two and one-half months is then paid before maturity, and interest has actually been paid by check at the end of each thirty day interest period or has been credited to the depositor on the books of

the bank at the end of each thirty day interest period, should the member bank, on paying the deposit before maturity, deduct from the principal of the deposit the amount of the interest so paid or credited?

In the opinion of the Board the above question should be answered in the negative. Section 4(d) of Regulation Q provides for the forfeiture of "accrued and unpaid" interest, but it is the view of the Board that interest which has been paid by check or credited to a depositor's account at the end of a regular interest period should not be considered as "accrued and unpaid" interest and, therefore, such interest is not subject to the forfeiture.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,
Assistant Secretary.