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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

STATEMENT FOR THE PRESS

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December 21, 1936.

During the latter part of 1935, the Board of Governors of the Federal Reserve System revised its Regulation Q relating to the payment by member banks of interest on deposits, and the regulation in its revised form was made effective January 1, 1936. However, the definition of interest in subsection (f) of section 1 of such revision of Regulation Q was not made effective on January 1, 1936, but the date on which such subsection should become effective was deferred until further action of the Board of Governors.

During the current year the Board of Governors has given exhaustive consideration to this subject, and, as a result of such consideration, has taken action fixing February 1, 1937, as the date on which subsection (f) of section 1 of Regulation Q shall become effective. This subsection which contains the definition of interest and which is quoted below will become effective on February 1, 1937, in the same form as that contained in subsection (f) of section 1 of the revision of Regulation Q sent to the member banks in 1935, all of the other provisions of which became effective on January 1, 1936.

The subsection reads as follows:

"The term 'interest' means a payment, credit, service or other thing of value which is made or furnished by a bank as consideration for the use of the funds constituting a deposit and which involves the payment or absorption by the bank of out-of-pocket expenses (i.e., expenses arising out of specific transactions for specific customers and definitely attributable to such transactions as distinguished from overhead and general operating expenses), 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 term 'interest' includes the payment or absorption of exchange and collection charges which involve out-of-pocket expenses, but does not include the payment or absorption of taxes upon deposits whether levied against the bank or the depositor nor the payment or absorption of premiums on bonds securing deposits where such bonds are required by or under authority of law.

"Notwithstanding the foregoing, the payment or absorption of isolated items of out-of-pocket expense in trivial amounts and not of a regularly recurrent nature, where the charging of such items to customers would cause undue friction or misunderstanding, will not be deemed to be a payment of interest, provided that the bank acts in good faith and does not utilize the absorption of such items as a basis for soliciting accounts or obtaining an advantage over competitors and provided further that the bank maintains and makes available to the examiners authorized to examine the bank a record showing the amounts of such items paid or absorbed by it, the dates of such payment or absorption, and the names of the customers for whom such items were paid or absorbed."