

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

December 22, 1936

Mr. _____,
The _____ National Bank,
_____, _____.

Dear Sir:

This refers to your letter of December 2, 1936, regarding the payment by member banks of interest accruing after August 23, 1937, on certain demand deposits of public funds, and the payment by member banks of interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds.

The twelfth paragraph of section 19 of the Federal Reserve Act provides that no member bank shall pay interest on any deposit which is payable on demand and also provides that until the expiration of two years after the date of enactment of the Banking Act of 1935 the above prohibition shall not apply to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, if the payment of interest with respect to such deposit of public funds is required by State law.

The Banking Act of 1935 was enacted on August 23, 1935, and, therefore, the two year period during which member banks may pay interest on demand deposits of public funds of States and subdivisions thereof expires on August 23, 1937. No member bank may pay any interest accruing after August 23, 1937, on any demand deposit of public

funds regardless of whether or not the payment of interest on such funds is required by State law.

You ask to be advised whether member banks may pay interest on demand deposits of Indian funds, Postal Savings funds, and other United States Government funds. Apparently your question has reference to whether interest may be paid on such funds after August 23, 1937. However, under the provisions of the twelfth paragraph of section 19 of the Federal Reserve Act, as amended by the Banking Act of 1935, interest may not now be paid by member banks on demand deposits of funds deposited by the United States or by any public instrumentality, agency, or officer thereof. Accordingly, interest may not now be paid by member banks on demand deposits of Indian funds, Postal Savings funds, or other Government funds when any of such funds are deposited by the United States or by a public instrumentality, agency, or officer thereof, nor may interest be paid by member banks on demand deposits of such funds after August 23, 1937.

As you are no doubt aware, interest may now be paid on funds of the kinds described above if they are placed in time deposits in member banks. The maximum rates of interest which may be paid on such time deposits are set forth in the Supplement to Regulation Q, a copy of which is inclosed herewith. In this connection, it is understood that Postal Savings funds are not placed in demand deposits in banks,

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but are placed in time deposits, pursuant to the regulations of the Board of Trustees of the Postal Savings System on this subject. Under the existing Supplement to Regulation Q, the maximum rate of interest payable by member banks on Postal Savings funds deposited in time deposits is 2-1/2 per cent per annum. Interest may be paid on time deposits of Postal Savings funds at the rate prescribed in the Supplement to Regulation Q after August 23, 1937, as well as prior to that date.

It is hoped that the above information will answer the questions which you have in mind. However, if you should have any further inquiries regarding this matter or any similar matter, it is suggested that you communicate with the Federal Reserve Bank of _____, which will be glad to give consideration to your inquiries.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure