

INTERPRETATION OF LAW OR REGULATION

(Copies to be sent to all Federal Reserve banks)

May 15, 1939

Mr. \_\_\_\_\_, Vice President,  
 \_\_\_\_\_ Bank & Trust Company,  
 \_\_\_\_\_,  
 \_\_\_\_\_, \_\_\_\_\_.

Dear Mr. \_\_\_\_\_:

This refers to your letter of May 3, addressed to \_\_\_\_\_, with regard to the question whether the practice described in an enclosed clipping from the (newspaper) is in conflict with Regulation Q of the Board of Governors of the Federal Reserve System.

It appears from the clipping that depositors who have special checking accounts in a member bank are offered a credit of \$1 for the introduction to the bank of depositors who open new special checking accounts. This amount may be given in the form of cash or in the form of ten free checks, for which these depositors would ordinarily pay 10 cents each. The plan is apparently a temporary one, expiring June 17, 1939.

The Federal Reserve Act forbids the direct or indirect payment of interest on demand deposits and the Board's Regulation Q provides that "Within this regulation, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest." The amount of \$1, which is given by the bank to a depositor for bringing in a new deposit account, is not compensation for the use of the funds constituting the deposit account of such depositor but apparently is for the service which he renders in introducing the new depositor to the bank. Such a service conceivably might be rendered by any person, whether or not a depositor. Likewise, it does not appear that the payment is one which should be regarded as compensation for the use of the funds constituting the account of the new depositor, as it does not inure to his benefit but is made to the person who introduces him.

Accordingly, it is the view of the Board of Governors, on the basis of the information enclosed with your letter, that the payment in question is not a payment of interest within the meaning of the statute or the Board's Regulation Q.

Very truly yours,

(Signed) L. P. Bethea

L. P. Bethea,  
 Assistant Secretary.