FEDERAL RESERVE BANK
OF DALLAS

Dallas, Texas, July 26, 1966

REGULATION Q

MAXIMUM INTEREST RATES ON MULTIPLE MATURITY TIME DEPOSITS

To All Member Banks in the
Eleventh Federal Reserve District:

Quoted below is a statement by the Board of Governors of the Federal Reserve System containing interpretations of the Supplement to Regulation Q, as revised effective July 20, 1966, relating to maximum rates of interest payable by member banks on multiple maturity time deposits. These interpretations will be published in the Federal Register and the Federal Reserve Bulletin.

Under the Supplement, a member bank may pay interest at a rate not exceeding 5 per cent on a multiple maturity time deposit made on or after July 20 which is payable only 90 days or more after the date of deposit or 90 days or more after the last preceding date on which it might have been paid; and it may pay interest at a rate not exceeding 4 per cent on a multiple maturity deposit which is payable less than 90 days after the date of deposit or less than 90 days after the last preceding date on which it might have been paid. Accordingly, if a deposit is payable, at the depositor's option, either after 90 days' notice or after 30 days' notice, the maximum interest rate permitted under the Supplement is 4 per cent, whether the deposit is paid after 90 days' or 30 days' notice. In this respect, the revised Supplement makes inapplicable previous interpretations of the Board (e.g., 1953 Federal Reserve Bulletin 721) to the effect that, if a deposit has alternative maturities, the maximum interest rate depends upon the alternative actually elected by the depositor.

Question has been raised as to the applicability of the revised Supplement to time deposits, open account, under contracts entered into prior to July 20, 1966. As stated in the revised Supplement, the 5 per cent and 4 per cent maximum rates apply to multiple maturity time deposits received on or after July 20, 1966. If, as is usually the case, a contract evidencing a time deposit, open account, provides that the contract may be cancelled or terminated by the bank or that the rate of interest is subject to change by the bank on its own initiative or in order to comply with regulations of the Board, the bank must take action as soon as possible to bring the contract within the requirements of the revised Supplement with respect to deposits received on or after July 20, 1966. In this connection, attention is called to section 217.3(b) of Regulation Q, which provides that "every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions" of Regulation Q. Only in the rare case in which a contract entered into prior to July 20, 1966, obligates the bank to accept deposits in the account and pay a specified rate of interest thereon, without any right to modify such obligations, may the bank pay the contract rate of interest on deposits received after that date if such rate is higher than the maximum rate prescribed by the Supplement for the particular type of multiple maturity deposit.

(OVER)

Question has been raised as to whether a certificate of deposit issued prior to July 20, 1966, providing for automatic renewal every 90 days and specifying a 5 per cent interest rate, may be amended after that date to provide for an interest rate in excess of 5 per cent. With respect to deposits received before July 20, 1966, the Supplement permits continued payment of interest at the rate being paid on that date, but it precludes any increase in the rate on such deposits above the maximum prescribed for deposits received on or after that date. Accordingly, the bank could not, under the revised Supplement, pay interest at a rate in excess of 5 per cent on or after July 20. (This principle applies also to time deposits, open account.)

Interest credited after July 20, 1966, on multiple maturity time deposits received before that date need not be regarded as a "deposit" received on or after that date but may be assimilated to the underlying pre-July 20 deposits on which the bank may continue to pay the rate of interest specified in the contract.

Yours very truly,

Watrous H. Irons

President