

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-17
January 21, 1970

REGULATIONS D AND Q

To All Member Banks
in the Eleventh Federal Reserve District:

Attached is a copy of a press release by the Board of Governors of the Federal Reserve System relating to changes to Regulation Q ceiling rates on time and savings deposits effective January 21, 1970, and a proposed rule applying Regulation D reserve requirements to bank-related commercial paper.

Drafts of the revised supplement to section 217.7 of Regulation Q and the proposed amendments to Regulation D are also attached. Printed copies of the revised supplement to Regulation Q for insertion in your ring binders will be forwarded as soon as available.

Please note that comments concerning the proposal to apply a 10 per cent reserve requirement on funds obtained through the issuance of commercial paper and similiar obligations by bank affiliates, or by a parent bank holding company, should be received by the Board of Governors by February 16, 1970.

Yours very truly,

P. E. Coldwell

President

Enclosures (3)



FEDERAL RESERVE

press release

For immediate release.

January 20, 1970.

The Board of Governors of the Federal Reserve System today announced an upward realignment of maximum interest rates member commercial banks may pay on time and savings deposits. At the same time, the Board published for comment a proposed rule applying reserve requirements to certain types of bank-related commercial paper. The interest rate changes are effective January 21 while the proposed action on commercial paper, if adopted, would become effective February 26.

The dual moves were taken within the framework of continued overall credit restraint and were based on these considerations: a rebalancing of the Board's regulatory structure in the light of recently expanded authority in this field and developments in financial markets; a readjustment of the structure of maximum interest rates payable by commercial banks for deposits to bring it somewhat more in line with going yields on market securities; the need for greater equity in the rates that may be paid for smaller savings balances, and a desire to encourage longer-term savings in reinforcement of anti-inflationary measures.

The revisions in the Board's Regulation Q ceiling rates were held to moderate size, so as not to foster sudden and large movements of funds into the banking system that could cause distortions in traditional financial flows or lead to an upsurge in bank lending.

The revisions were made after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, which have parallel regulatory authority over the maximum interest rates that may be paid by insured State nonmember banks, mutual savings banks, and savings and loan associations.

In taking the actions announced, the Board of Governors expressed its belief that higher rates paid to savers by institutions generally would increase the pool of savings for investment in mortgages.

The change in the maximum interest rates payable on time and savings deposits is the first since April 19, 1968, when maximum interest rates on deposits of \$100,000 or more were increased.

In today's action, the Board raised from 4 to 4.5 per cent the maximum rate National and State member banks may pay on passbook savings, the first change in this rate since November 24, 1964. The Board also approved the following maximum rate structure for other types of consumer-type deposits--those of less than \$100,000:

<u>Maturity</u>	<u>New maximum</u>	<u>Present maximum</u>
30-89 days multiple maturity ^{1/}	4.50	4.00
90 days and over multiple maturity ^{1/}	5.00	5.00
30 days-1 year single maturity	5.00	5.00
1 year single maturity	5.50	5.00
2 year single maturity	5.75	5.00

Previously, there was no provision in Regulation Q for an interest rate above 5 per cent on consumer-type deposits. The one-year

^{1/} Multiple-maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

and two-year instruments that may now be offered by member banks at the 5.50 per cent and 5.75 per cent maximum rates respectively must be single-dated maturities.

The Board also approved the following schedule of maximum rates that member commercial banks may pay on time deposits of \$100,000 or more:

<u>Maturity</u>	<u>New maximum</u>	<u>Present maximum</u>
30-59 days	6.25	5.50
60-89 days	6.50	5.75
90-179 days	6.75	6.00
180 days to 1 year	7.00	6.25
1 year or more	7.50	6.25

In proposing to use new legislative authority for the first time, the Board said it is considering a 10 per cent reserve requirement on funds obtained by member banks through the issuance of commercial paper or similar obligations by bank affiliates, including a member bank's parent company--either a one-bank holding company or a company registered under the Bank Holding Company Act.

On October 29, 1969, the Board announced that it was considering amending its rules governing the payment of interest on deposits to apply to funds received by member banks from the issuance of commercial paper by bank affiliates or by a parent holding company. Subsequently, the Act of December 23, 1969, explicitly authorized the Board to apply reserve requirements to such obligations. Accordingly, the Board has withheld action in applying interest rate ceilings to

bank-related commercial paper while it is considering amending its rules to apply reserve requirements to the same type paper. Comments on this proposal should be received by the Board by February 16.

Commercial paper issued by bank holding companies or their affiliates has grown substantially during the last several months, totaling about \$4 billion at the end of December compared with a total commercial paper market of about \$33 billion.

Attached are copies of amendments to Regulation Q and the proposed amendments to Regulation D.

Attachments.

FEDERAL RESERVE SYSTEM

[12 CFR Part 204]

[Reg. D]

RESERVES OF MEMBER BANKS

Certain Borrowings by Bank Affiliates as Deposits

The Board of Governors is considering amending Regulation D, effective February 26, 1970, in the following respects:

(1) By adding to § 204.1(f) the following sentences:

"For the purposes of this part, 'deposits' of a member bank also include the liability of a member bank's affiliate, as defined in section 2(b)(2) or 2(b)(4) of the Banking Act of 1933 (12 U.S.C. 221a(b)(2) and (b)(4)), on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral), with a maturity of two years or less, that is issued or undertaken principally as a means of supplying funds to the bank for use in its banking business, or maintaining the availability of such funds, except any such obligation that, if it had been issued directly by the member bank, would not constitute a deposit in view of exceptions (1) and (2), above."

(2) By changing the caption of § 204.5(c) to read "Reserve percentages against certain deposits", by inserting "(1)" before the present text of such section, and by inserting the following before the period at the end thereof: "and (2) Time deposits^{9/} represented

^{9/} For the purposes of this paragraph, "time deposits" means any deposit having a maturity of one day or more.

by obligations of affiliates shall not be subject to paragraph (a) of this section, but a member bank shall maintain with the Reserve Bank of its district, a daily average balance equal to 10 per cent of the daily average amount of such deposits."

The main purpose of the proposed amendments is to apply a 10 per cent reserve requirement to funds received by member banks as the result of issuance of obligations commonly described as commercial paper by a corporation or trust that (1) majority-controls the member bank, (2) is majority-controlled by persons who also majority-control the member bank, or (3) is controlled by trustees for the benefit of the shareholders of the member bank. The amendments would implement authority granted by the Congress to the Board in section 4(a) of the Act of December 23, 1969 (Public Law 91-151).

The following illustrate the effect of the proposed amendments:

(1) A corporation that controls a majority of the stock of a member bank establishes and acquires a majority of the stock of another corporation. That corporation proposes to acquire \$10 million by the public sale on February 1 of promissory notes with a maturity of 90 days and to use \$5 million to acquire on February 1 interests in loans made by the bank, \$3 million of which will mature in 90 days and \$2 million of which will mature in 180 days. Under the proposed amendment, on February 26, \$5 million of the notes will become subject to a 10 per cent reserve requirement, which would continue as long as the funds of the affiliate are used to maintain the availability of funds to the bank.

(2) If, on March 1, the affiliate described in the preceding paragraph sells to a third person \$1 million of the 90-day loans, the bank may thereupon reduce its deposits subject to the 10 per cent requirement by \$1 million. If, on April 1, \$1 million of the affiliate's funds are again used to purchase from the bank notes maturing in 45 days, the bank must add back \$1 million to its deposits subject to the 10 per cent requirement, even though the affiliate does not issue additional obligations. If, upon maturity on May 2 of the affiliate's \$5 million of obligations, the affiliate extends \$1 million thereof for 60 days and \$2 million for 90 days, the \$1 million is subject to reserves only for 14 days - until the maturity of the 45-day loans - unless additional funds are channeled to the bank or repayments on the loans maturing in that time are deferred. If, on June 1, a portion of the \$2 million 180-day loans is prepaid, the amount of such prepayments will reduce the amount of the affiliate's obligations that are subject to reserves, unless additional funds are channeled to the bank.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than February 16, 1970.

Under the Board's rules regarding availability of information (12 CFR Part 261), such materials will be made available for inspection and copying upon request unless the person submitting the material asks that it be considered confidential.

By order of the Board of Governors, January 20, 1970.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

[SEAL]

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[Reg. Q]

PART 217--INTEREST ON DEPOSITS

Maximum Rates of Interest

1. Effective January 21, 1970, § 217.7 (Supplement to Regulation Q) is amended to read as follows:

§ 217.7 Maximum rates of interest payable by member banks on time and savings deposits.

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates^{1/} of interest per annum payable by member banks of the Federal Reserve System on time and savings deposits:

(a) Single maturity time deposits.

(1) Deposits of \$100,000 or more. No member bank shall pay interest on any single maturity time deposit of \$100,000 or more at a rate in excess of the applicable rate under the following schedule:

<u>Maturity</u>	<u>Maximum per cent</u>
30-59 days	6-1/4
60-89 days	6-1/2
90-179 days	6-3/4
180 days or more but less than 1 year	7
1 year or more	7-1/2

^{1/} The limitations on rates of interest payable by member banks of the Federal Reserve System on time and savings deposits, as prescribed herein, are not applicable to any deposit which is payable only at an office of a member bank located outside the States of the United States and the District of Columbia.

(2) Deposits of less than \$100,000. No member bank shall pay interest on any single maturity time deposit of less than \$100,000 at a rate in excess of the applicable rate under the following schedule:

<u>Maturity</u>	<u>Maximum per cent</u>
30 days or more but less than 1 year	5
1 year or more but less than 2 years	5-1/2
2 years or more	5-3/4

(b) Multiple maturity time deposits.

(1) Deposits payable at intervals of at least 90 days.

No member bank shall pay interest at a rate in excess of 5 per cent on a multiple maturity time deposit that 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.

(2) Deposits payable at intervals of less than 90 days.

No member bank shall pay interest at a rate in excess of 4-1/2 per cent on a multiple maturity time deposit that is payable less than 90 days after the date of deposit, or less than 90 days (but at least 30 days) after the last preceding date on which it might have been paid.

(c) Savings deposits. No member bank shall pay interest at a rate in excess of 4-1/2 per cent on any savings deposit.

* * * * *

2a. The changes (1) raise from 4 to 4-1/2 per cent the maximum rate of interest a member bank may pay on savings deposits, (2) raise (i) from 5 to 5-1/2 the maximum rate on single maturity time deposits of less than \$100,000 with maturity of 1 year but less than 2 years and (ii) from 5 to 5-3/4 the maximum rate on such deposits with a maturity of two years or more, and (3) raise (i) from 6-1/4 to 7-1/2 per cent the maximum rate of interest on a single maturity time deposit of \$100,000 or more with maturity of 1 year and (ii) raise by 3/4 per cent the maximum rate of interest on such a deposit with maturities less than 1 year (30-59 days from 5-1/2 to 6-1/4; 60-89 days from 5-3/4 to 6-1/2; 90-179 days from 6 to 6-3/4, and 180 days to 1 year from 6-1/4 to 7).

b. The changes were taken within the framework of continued overall credit restraint and were based on these considerations: a readjustment of the structure of maximum interest rates payable by member banks for deposits to bring it somewhat more in line with going yields on market securities; the need for greater equity in the rates that may be paid for smaller savings balances, and a desire to encourage longer-term savings in reinforcement of anti-inflationary measures.

c. The requirements of section 553(b) of Title 5, United States Code, with respect to notice, public participation, and deferred effective date were not following in connection with this amendment

because the Board found that the general credit situation and the public interest compelled it to make the action effective no later than the date adopted.

By order of the Board of Governors, January 20, 1970.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

[SEAL]