

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 70-38
February 17, 1970

To All Member Banks
in the Eleventh Federal Reserve District:

On the following pages are two interpretations of Regulation Q recently issued by the Board of Governors of the Federal Reserve System. One relates to the giving of premiums to depositors and the other to the need for informing depositors of the method used in computing and paying interest.

The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board have taken similar positions and are so advising the institutions under their supervision.

Yours very truly,

P. E. Coldwell

President

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

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

PART 217--INTEREST ON DEPOSITS

[Reg. Q]

Premiums; Method of Computing Interest

§ 217.147 Premiums not considered payment of interest.

Section 217.2(b) of the Board's Regulation Q, relating to the payment of interest on deposits, provides that, for purposes of the 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." In applying this provision on and after March 1, 1970, the Board of Governors will regard premiums (whether in the form of merchandise, credit, or cash) given by member banks to their depositors as an advertising or promotional expense rather than a payment of interest if (a) the premium is given to a depositor only at the time of the opening of a new account or an addition to an existing account; (b) the premium is not given to any depositor on a recurring basis; and (c) the value of the premium or, in the case of articles of merchandise, the wholesale cost (excluding shipping and packaging costs) does not exceed \$5.00, except that the value or wholesale cost may be not more than \$10.00 if the amount of the deposit is \$5,000 or more.

§ 217.148 Information regarding computation of interest on deposits.

Section 217.6(f) of the Board's Regulation Q, relating to payment of interest on deposits, provides:

"(f) Accuracy of advertising. No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts."

Within the spirit of this provision and in order to avoid misunderstandings on the part of its customers, every member bank should inform the holder of a time or savings account at the time of the opening of such account as to the method that will be used in computing and paying interest on the account, including any provision for nonpayment of interest on deposits made after the beginning of an interest-payment period or withdrawn before the end of such period. In addition, if the bank subsequently makes a change in such method that will be less favorable to a depositor than the previous method, notice of such change should be mailed to each depositor at his last known address.

(12 U.S.C. 248(i). Interprets and applies 12 U.S.C. 371a, 371b, and 461.)

By order of the Board of Governors, February 12, 1970.

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Deputy Secretary.

[SEAL]