

FEDERAL RESERVE BANK OF DALLAS
DALLAS, TEXAS 75222

Circular No. 70-57
March 9, 1970

THREE QUESTIONS AND ANSWERS ON REGULATION Q

To All Member Banks
in the Eleventh Federal Reserve District:

We have been asked the following three questions by a number of banks since the recent rate increases, and for that reason we have decided to circularize the answers to all member banks in this district.

Question: Can an existing time or savings deposit be amended to take advantage of the new rates which took effect January 21, 1970?

Answer: Yes. The new rates can only be made applicable to time deposits for the period beginning January 21, 1970, but the Board of Governors has specifically permitted banks to compute interest at the new 4-1/2 percent rate from January 1, 1970, on savings deposits held on January 20.

Example: A bank issued a \$5,000 CD on November 1, 1969, with automatic renewal at one year intervals and a final maturity of five years. The original rate was 5 percent. On March 10, 1970, the depositor requests a higher rate. The bank could, on that date, amend the CD retroactive to January 21 to pay the new 5-1/2 percent rate.

Question: Can the maturity of an existing time deposit be extended to take advantage of a still higher rate?

Answer: Yes, if the new maturity exceeds the old. The rate which may be paid following the extension is governed by the time from the date of the extension to the new maturity.

Example: In the case given above, the bank could also, on March 10, 1970, amend the CD to extend the maturity interval from one to two years and the final maturity accordingly. It could then pay the new 5-3/4 percent rate from March 10. The same result could be obtained by canceling the old CD and reissuing a new CD containing the new, longer maturities.

Question: Can interest on a time deposit be paid periodically to the depositor?

Answer: Yes. Accrued and uncredited interest may be paid periodically by check or by deposit to another account of the depositor. Of course, interest paid out may not be used as a basis for compounding in the account from which it is paid.

The recent increases in Regulation Q rates were forwarded to you earlier under our circulars 70-17 (January 21, 1970) and 70-53 (March 4, 1970). The Board's action permitting the new rate on savings deposits to be retroactive to January 1, 1970, is found in our circular 70-19 (January 26, 1970).

Authority for the answers to these three questions is found in the following paragraphs of the Published Interpretations of the Board of Governors: 3311, 3345, 3346 and 3455.

Yours very truly,

P. E. Coldwell

President