

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-170

July 11, 1973

## AMENDMENT AND SUPPLEMENT TO REGULATION Q (Withdrawal Before Maturity and Increased Maximum Rates)

To All Member Banks and Others Concerned  
in the Eleventh Federal Reserve District:

On July 5, 1973, the Board of Governors of the Federal Reserve System announced an increase in maximum rates of interest that member banks may pay on passbook savings and other types of consumer deposits, retroactive to July 1, 1973.

In addition, the Board amended its rules on the payment of time deposits by member banks prior to maturity, Section 217.4(d).

Enclosed are copies of the supplement and amendment to Regulation Q.

The following questions have been received from a number of banks since the rate increases were announced, and the answers are furnished for your information:

QUESTION: Can an existing time or savings deposit be amended to take advantage of the new rates which became effective as of July 1, 1973?

ANSWER: Yes. The new rates can be made applicable to existing time and savings deposits for the period beginning July 1, 1973. For time deposits, this can be accomplished with no change in the maturity date of the deposit contract.

EXAMPLE: A bank issued a \$5,000 CD on January 2, 1973, with 1-year maturity and automatic renewal. The original rate was 5 1/2 percent. On August 1, 1973, the bank could amend the CD retroactive to July 1 to pay the new 6 percent rate. Regulation Q does not specify the method of amendment which may be used. If the bank elects to use a replacement CD, the new certificate should specify on its face that it replaces a CD dated January 2.

QUESTION: In the example above, is there any way the bank could amend the CD to pay a rate higher than 6 percent, if the customer so requests?

ANSWER: Yes. The bank could extend the maturity of the CD to make it eligible for a higher rate category. The rule is that the period of time from the date of extension to the date of the new maturity must be long enough, standing alone, to qualify the CD as eligible for the new rate category.

EXAMPLE: Assume the same CD described in the example above. On August 1, 1973, the bank could amend the CD to extend the original 1-year maturity to 2 1/2 years from August 1, 1973. The CD would thereupon mature on February 1, 1976. Since the period from the date of the extension to the new maturity would be 2 1/2 years, the bank could pay 6.5 percent on the CD for the period beginning August 1, 1973. The same result could be obtained by cancelling the old CD and issuing a new CD containing the new, longer maturity. Since no funds would be paid to the depositor, an extension of maturity--whether accomplished by amending the existing certificate or issuing a new certificate--does not constitute a withdrawal, and no penalty is required.

Yours very truly,

P. E. Coldwell,

President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

BANK HOLDING COMPANIES

AMENDMENT TO REGULATION Q †

Effective July 5, 1973, section 217.4(d) is amended to read as follows:

Section 217.4 **Payment of time deposits before maturity.**

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(d) **Penalty for early withdrawals.** Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that

currently prescribed in § 217.7 for a savings deposit: *Provided*, That the depositor shall forfeit three months of interest payable at such rate. If, however, the amount withdrawn has remained on deposit for three months or less, all interest shall be forfeited. Where necessary to comply with the requirements of this paragraph, any interest already paid to or for the account of the depositor shall be deducted from the amount requested to be withdrawn.

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† For this Regulation to be complete as amended effective July 5, 1973, retain:

- 1) Printed Regulation pamphlet containing Regulation Q dated January 1, 1971.
- 2) Supplement effective July 1, 1973.
- 3) Amendment effective July 5, 1973.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective July 1, 1973

SECTION 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<sup>1</sup> 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.** There is no maximum rate of interest presently prescribed on any single maturity time deposit of \$100,000 or more.

(2) **Deposits of less than \$100,000.** Except as provided in subparagraph (3) of this paragraph, 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:

<i>Maturity</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5
90 days or more but less than 1 year	5½
1 year or more but less than 30 months	6
30 months or more	6½

(3) **Deposits of \$1,000 or more with maturities of 4 years or more.** There is no maximum rate of interest presently prescribed on any single maturity time deposit of \$1,000 or more with a maturity of 4 years or more.

(b) **Multiple maturity time deposits.** No member bank shall pay interest on a multiple maturity time deposit at a rate in excess of the applicable rate under the following schedule:

<i>Maturity Intervals</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5
90 days or more but less than 1 year	5½
1 year or more but less than 30 months	6
30 months or more	6½

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5 per cent on any savings deposit.

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<sup>1</sup> 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.