

# FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 73-193

July 26, 1973

## REGULATION Q

(Amendment and proposed amendment to clarify penalty for early withdrawal)

(Amendment limiting the amount of "no-ceiling" consumer-type certificates of deposit a member bank may issue)

(Proposed amendment on the advertising of withdrawal penalty and providing specific disclosures to customers making time deposits)

To All Members Banks and Others Concerned  
In the Eleventh Federal Reserve District:

Effective July 24, 1973, the Board of Governors of the Federal Reserve System amended Section 217.4(d) of Regulation Q to clarify how the penalty for early withdrawal adopted by the Board on July 5, 1973, applies to various types of time deposit contracts. Also, the Board invited comments on a proposed amendment to Regulation Q that would apply the penalty provisions for early withdrawal to amended or extended deposit contracts.

In a related action, effective today, the Board issued an additional amendment to its Regulation Q imposing a limit on the amount of consumer-type certificates of deposit (those maturing in four years or more with minimum denominations of \$1,000) a member bank may issue. A member bank may not issue more than 5 percent of its total time and savings deposits in this type of certificate.

At the same time, the Board invited comments on proposed amendments to Regulation Q which would require notice in bank advertising that early withdrawal of a time deposit requires that some interest be forfeited, and would also require that each customer making a time deposit receive a disclosure statement.

Attachments relative to these matters are enclosed. Copies of the two amendments which are now in effect will be provided in the near future for insertion in the Regulations Binder.

Very truly yours,

P. E. Coldwell,

President

Attachments



# FEDERAL RESERVE

press release

For immediate release

July 26, 1973

The Board of Governors of the Federal Reserve System today imposed limits on the amount of "no-ceiling" consumer-type certificates of deposit that may be issued by member banks.

On July 5, the Board increased the maximum rates of interest that member banks may pay on savings and other consumer-type deposits, and established a new category of time deposit on which member banks may pay any rate of interest they desire so long as the deposit matures in four years or more and has a minimum denomination of \$1,000.

In order to provide for the introduction of these new savings instruments at a more orderly pace, the Board today limited the amount of such certificates that a bank may issue to 5 percent of its total time and savings deposits. Any such certificate that a bank sells beyond that amount will be subject to the existing interest rate ceiling of 6.5 percent that applies to time deposits maturing in 2  $\frac{1}{2}$  years or more.

Savings and loan associations that are members of the Federal Home Loan Bank System are also subject to a limitation of 5 percent total savings capital on issuance of the new type certificates.

At the same time, the Board invited comment by August 27 on a proposal that would require member banks to:

1. Provide a clear and conspicuous notice in bank advertising that Federal law and regulation prohibit the bank from redeeming a time deposit before maturity unless some payment of interest is forfeited.

2. Give to each bank customer who is making a time deposit a disclosure statement specifying that the customer has contracted to keep funds on deposit for a fixed period of time and describing how the early withdrawal penalty applies to time deposits. This statement would contain arithmetical examples illustrating how the penalty provisions would work.



# FEDERAL RESERVE

press release

For immediate release

July 24, 1973

The Board of Governors of the Federal Reserve System today invited comment on a proposed amendment to its Regulation Q that would apply the penalty provisions for early withdrawal of time deposits to changes in deposit contracts.

The proposal would apply the new early withdrawal rule to any change in a time deposit contract that results in an increase in interest rates or a change in maturity. At the present time, the early withdrawal rule does not apply to such conversions of time deposits. In effect, the proposed rule would treat conversions as withdrawals of funds.

Comment on the proposal should be received by the Board by August 13.

At the same time, the Board adopted an amendment to Regulation Q spelling out -- as earlier announced by the Board on July 12 -- how the early withdrawal provisions apply to existing time deposit contracts.

The new early withdrawal rule (that went into effect July 5) states that a time deposit may be withdrawn before maturity only at a reduced rate of interest -- namely, the regular passbook rate for the period held, minus three months. This rule applies, under the amendment adopted today, to the following types of contracts:

1. Time deposits entered into after July 5.
2. Contracts amended after July 5 to increase the rate of interest or to extend the maturity of the deposit.
3. Contracts renewed after July 5, whether by automatic renewal or otherwise.

All other time deposit contracts are subject to the old rule which states that a bank may pay a time deposit before maturity only in an emergency

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where it is necessary to prevent great hardship to the depositor. In such cases, the depositor forfeits accrued and unpaid interest for a period of up to 3 months.

A copy of the Board's orders relating to these matters is attached.

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FEDERAL RESERVE SYSTEM

[12 CFR Part 217]

INTEREST ON DEPOSITS

Penalty for early withdrawals

The Board of Governors proposes to treat, as a payment of a time deposit before maturity, any amendment to the time deposit contract that results in either an increase in interest rate or a change in the maturity of the deposit. Such treatment would mean that the penalty for early withdrawals provided in Regulation Q would apply at the time of any such amendment to the contract.

To aid in the consideration of the 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 August 13, 1973. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board proposes to amend § 217.4(d) of its Regulation Q (12 CFR Part 217) by adding a new sentence at the end thereof to read as follows:

§ 217.4 Payment of time deposits before maturity.

\* \* \* \*

(d) Penalty for early withdrawals. \* \* \*

Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a change in the maturity of the deposit constitutes a payment of the time deposit before maturity.

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By order of the Board of Governors, July 24, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

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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

Applicability of penalty for early withdrawals

The Board of Governors, pursuant to its authority under § 19 of the Federal Reserve Act to prescribe rules governing the payment of interest on deposits, has amended its Regulation Q (12 CFR Part 217) in order to clarify how the penalty for early withdrawals, adopted by the Board on July 5, 1973, applies to various types of time deposit contracts.

There was no notice or public participation with respect to this amendment since such procedure would result in delay that would be contrary to the public interest and serve no useful purpose. See § 262.2(e) of the Board's Rules of Procedure (12 CFR § 262.2(e)). The effective date was not deferred for the 30-day period referred to in § 553(d) of Title 5, United States Code, because this amendment recognizes an exemption. 5 U.S.C. § 553(d)(1).

Effective immediately, the first sentence of § 217.4(d) of the Board's Regulation Q (12 CFR Part 217) is amended by adding a new footnote 6a at the end thereof to read as follows:

6a. The provisions of this paragraph apply to all time deposit contracts entered into after July 5, 1973 and to all existing



time deposit contracts that are extended or renewed (whether by automatic renewal or otherwise) after such date, and to all time deposit contracts that are amended after such date so as to increase the rate of interest paid. All contracts not subject to the provisions of this paragraph shall be subject to the restrictions of § 217.4(d) in effect prior to July 5, 1973, which permitted payment of a time deposit before maturity only in an emergency where necessary to prevent great hardship to the depositor, and which required the forfeiture of accrued and unpaid interest for a period of not less than 3 months on the amount withdrawn if an amount equal to the amount withdrawn had been on deposit for 3 months or longer, and the forfeiture of all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn had been on deposit less than 3 months.

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By order of the Board of Governors, July 24, 1973.

(Signed) Chester B. Feldberg

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Chester B. Feldberg  
Secretary of the Board

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