

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 74-320
December 5, 1974

AMENDMENTS TO REGULATIONS D AND Q Definition of Savings Deposits Maximum Rates of Interest

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

Effective November 27, 1974, the Board of Governors of the Federal Reserve System amended its Regulation Q, "Interest on Deposits", to permit governmental units to hold savings deposits at member commercial banks, and to create a new ceiling for time deposits of governmental units. The Board also has amended its Regulation D, "Reserves of Member Banks", to conform the definition of a savings deposit to the action taken under Regulation Q. The text of the Federal Register document is quoted below.

"In conjunction with P. L. 93-495 which, effective November 27, 1974, provides Federal deposit insurance up to \$100,000 for time and savings deposits of governmental units, the Board of Governors has amended Regulation D (12 CFR 204) and Regulation Q (12 CFR 217) to include deposits of governmental units in the definition of savings deposits. The principal effect of the amendments approved by the Board is to permit member banks to accept savings deposits from governmental units. The Board has also amended Regulation Q to establish an additional interest rate limitation on time deposits of governmental units as a separate category of deposits. Under this new deposit classification, member banks may pay interest on governmental unit time deposits of less than \$100,000 regardless of maturity or denomination, at an annual rate not to exceed the highest of any of the permissible rates that can be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank or savings and loan association, currently 7.5 per cent. Under the amendment to the definition of savings deposit in Regulation D, savings deposits of governmental units will be subject to the current 3 per cent reserve requirement.

The amendment to the Board's interest rate schedule does not change the present maximum rates of interest that may be paid by member banks on savings deposits or on other classes of deposits as prescribed by existing regulations. Member banks are currently permitted to pay interest on savings deposits at an annual rate not to exceed 5 per cent; savings and loan associations and mutual savings banks may pay interest on such deposits at a rate of 5 1/4 per cent. In addition, no interest rate limitation applies to governmental unit time deposits in excess of \$100,000.

Since 1936 the Board's definition of 'savings deposits' has excluded deposits of governmental units. In light of the recent legislation, the Board has determined that it is appropriate under present circumstances to permit deposits of such governmental units at a member bank to be eligible for classification as savings deposits.

The Board's action was taken after consultation with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Department of the Treasury. Similar action with regard to savings deposit eligibility and creation of a new interest rate limitation on time deposits of governmental units is being taken by the Federal Deposit Insurance Corporation. Similar action with regard to the new interest rate limitation is being taken by the Federal Home Loan Bank Board.

These amendments were adopted pursuant to the Board's authority under section 19 of the Federal Reserve Act (12 U.S.C. 461) to define the terms used in that section and its authority to prescribe different rates of interest on different classes of deposits. All of these amendments are effective immediately.

There was no notice or public participation with respect to these amendments since such procedure would result in delay that would be contrary to the public interest and serve no useful purpose. The effective date was deferred for less than the 30 day period referred to in Section 553(d) of Title 5, United States Code, because the Board determined that the public interest compelled it to make the action effective no later than the date adopted."

Enclosed are copies of the amendment and supplement to Regulation Q and the amendment to Regulation D. Additional copies will be furnished upon request.

Yours very truly,

T. W. Plant

First Vice President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

RESERVES OF MEMBER BANKS

AMENDMENT TO REGULATION D

Effective November 27, 1974, section 204.1(e)(1) of Regulation D is amended to read as follows:

SECTION 204.1 — DEFINITIONS

* * * * *

(e) **Savings deposits.** The term "savings deposit" means a deposit —

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, or which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, the United States, any State of the United States, or any county,

municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof, except where the deposit is to the credit of the bank's own trust department and the funds involved are utilized to cover checks; and

* * * * *

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual or a governmental unit of funds in which the beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits unless permitted elsewhere within this subsection.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q †

Effective November 27, 1974, Section 217.1(e)(1) is amended to read as follows:

SECTION 217.1 — DEFINITIONS.

* * * * *

(e) **Savings deposits.** The term "savings deposit" means a deposit —

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association or other organization, or which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, the United States,

any State of the United States, or any county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof; and

* * * * *

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual or a governmental unit of funds in which the beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits unless permitted elsewhere within this subsection.

† For this Regulation to be complete as amended effective November 27, 1974, retain:

- 1) Printed Regulation pamphlet containing Regulation Q dated January 1, 1971.
- 2) Amendment effective September 10, 1973.
- 3) Amendments effective September 18, 1973.
- 4) Amendments effective January 1, 1974.
- 5) Amendment effective October 17, 1974.
- 6) Supplement effective November 27, 1974.
- 7) This slip sheet.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective November 27, 1974

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 rates¹ of interest per annum payable by member banks of the Federal Reserve System on time and savings deposits:

(a) **Time deposits of \$100,000 or more.** There is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more.

(b) **Time deposits of less than \$100,000.**

(1) Except as provided in paragraphs (a) and (d) and subpart (2) of this paragraph, no member bank shall pay interest on any time deposit 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

(2) Member banks may pay interest on any time deposit of \$1,000 or more, with a maturity of four years or more, at a rate not to exceed 7¼ per cent.

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5 per cent on any savings deposit including savings deposits that are subject to negotiable orders of withdrawal, the issuance of which is authorized by Federal law.

(d) **Governmental unit time deposits of less than \$100,000.**

(1) Except as provided in paragraph (a), no member bank shall pay interest on any time deposit which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, the United States, any State of the United States, or any county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof, at a rate in excess of the highest of any of the permissible rates that can be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank or savings and loan institution.²

¹The 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.

²The highest permissible rate is currently 7.5 per cent per annum (12 CFR 329.7 and 12 CFR 526.5).