



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-77

June 13, 1975

AMENDMENTS TO REGULATION Q Payment of Time Deposits Before Maturity Notice of Maturity

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has issued two amendments to its Regulation Q, "Interest on Deposits," that will provide greater convenience for banking customers.

The first amendment, effective June 5, 1975, permits member banks to redeem a time deposit before maturity without penalty in case of death of the depositor or a co-depositor. Present rules permit payment of a time deposit before maturity only if a substantial interest penalty is imposed--namely the loss of three months' interest and the payment of interest on the withdrawn funds at the passbook rate.

The second amendment, effective September 1, 1975, requires member banks to print or stamp a conspicuous statement on the face of a time deposit that no interest will be paid after the maturity date. The statement must provide the renewal terms in the case of an automatically renewable time deposit.

At the same time, the Board urged member banks to mail notices to their customers of the impending maturity of a time deposit. The Board said a mailed notice is most effective when it is received by the customer about 30 days prior to the maturity date. The Board said a mailed notice is particularly desirable when the time deposit has an initial maturity greater than one year.

Any questions regarding this matter should be addressed to our Regulations Department.

Printed on the reverse of this circular are the amendments to Regulation Q, which should be filed in your Regulations binder. Additional copies will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,
T. W. Plant
First Vice President

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q†

1. Effective June 5, 1975, § 217.4(d) is amended to read as follows:

SECTION 217.4 — PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(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Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently prescribed in § 217.7 for a savings deposit: *Provided*, That the depositor shall forfeit three months of interest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. However, upon the death of any person whose name appears on the time deposit passbook or certificate, a member bank may pay such time deposit before maturity without a reduction or forfeiture of interest as prescribed by this paragraph.^{6a} *Provided further*, That Invest-

ment Certificates issued in negotiable form by a member bank pursuant to subpart 3 of § 217.7(b) may not be paid before maturity. This provision does not prevent a member bank from arranging the sale or purchase of such a certificate on behalf of the holder or prospective purchaser of a certificate issued under that subpart. A member bank may not, however, repurchase such certificates for its own account.

2. Effective September 1, 1975, § 217.3(f) is amended by adding the following to the end thereof:

SECTION 217.3 — INTEREST ON TIME AND SAVINGS DEPOSITS

* * * * *

(f) * * * On each certificate, passbook, or other document representing a time deposit, the bank shall have printed or stamped a conspicuous statement indicating that no interest will be paid on the deposit after the maturity date or, in the case of a time deposit that is automatically renewable, a conspicuous statement indicating that the contract will be renewed automatically upon maturity, and indicating the terms of such renewal.

* * * * *

† For this Regulation to be complete as amended effective June 5, 1975, retain:

- 1) Printed Regulation pamphlet containing Regulation Q dated January 1, 1971;
- 2) Amendment effective January 1, 1974, Section 217.5(c)(4) and Section 217.6(i);
- 3) Amendment effective October 17, 1974, Section 217.5(c)(3);
- 4) Amendment effective November 27, 1974, Section 217.1(e)(1);
- 5) Amendments effective December 23, 1974, Section 217.4(e) and Section 217.6(e);
- 6) Supplement effective December 23, 1974;
- 7) Amendment effective May 16, 1975, Section 217.1(e)(3); and
- 8) This slip sheet effective on the dates as shown herein.

^{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.