



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-190
December 23, 1975

INDIVIDUAL RETIREMENT ACCOUNTS

Amendment and Supplement to Regulation Q

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

Following is the text of a statement issued December 4 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended its Regulation Q--"Interest on Deposits"--to facilitate the establishment by eligible individuals of Individual Retirement Accounts (IRA).

The Employee Retirement Income Security Act of 1974 permits individuals not covered by a retirement plan to deposit up to \$1,500 a year or 15 percent of gross income, whichever is less, in special tax-deferred retirement accounts. Last June 26 the Board invited public comment on a number of questions relating to IRAs and its action today was taken in light of comment received. The amendments, effective immediately, are:

1. Member banks may pay all, or a portion, of an IRA time deposit prior to its maturity, without penalty for early withdrawal, when the individual for whose benefit the account is established is 59 1/2 years of age or more, or becomes disabled.
2. Member banks may waive, for the purposes of IRA accounts, the \$1,000 minimum required for time deposits with four to six year maturities.

The first amendment would permit a depositor who had established--say--a five-year deposit, to make withdrawals from it without penalty before the end of five years if the depositor becomes 59 1/2 years of age, or becomes disabled. Regulation Q normally requires a penalty in the form of a loss of interest when time deposits are withdrawn before maturity. This amendment gives full effect to the provision of the IRA statute authorizing withdrawal from IRA accounts when the depositor attains the age of 59 1/2, or is disabled. Regulation Q already provides that early withdrawal may be made from time deposits without penalty in the case of death of the depositor.

As a result of this amendment, member banks may distribute the proceeds of an IRA account in a single payment, without penalty, when the distribution is made in conformance with the IRA agreement between the bank and the depositor. Or, member banks may establish IRAs from which periodic, annuity-like payments may be made with no reduction in the rate of interest paid.

The second amendment to Regulation Q permits member banks to pay the 7 1/4 percent interest available for four-year time deposits, or the 7 1/2 percent interest available for six-year deposits, without requiring the usual minimum of \$1,000, since some depositors may not have such a sum to begin with. The Board believes this serves the intent of Congress in the IRA statute to encourage individuals to save for retirement.

In order to obtain the tax deferral benefits of an IRA account for the year 1975, depositors must have established IRA agreements by December 31, 1975.

IRAs already in existence may be amended to incorporate today's changes, which apply solely to IRA accounts.

The Board is continuing to examine another question raised in its June 26 request for comment: whether elimination of the quarter of one percent differential in interest rate ceilings that now prevails for time deposits, between commercial banks and thrift institutions is appropriate in the case of long term IRA accounts.

Enclosed is a copy of an Amendment and Supplement, both effective December 4, 1975, to the Board's Regulation Q, reflecting these changes. Any questions regarding this matter may be directed to the Regulations Department of this Bank at (214) 651-6169. Additional copies of the enclosures will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

Enclosures

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective December 4, 1975

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 hereof, 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 subparts (2) and (3) 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 percent</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 percent.²

(3) **Investment Certificates** — Member banks may pay interest on any time deposit of \$1,000 or more, with a maturity of six years or more, at a rate not to exceed 7½ percent.²

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5 percent 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.³

¹ 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.

² The \$1,000 minimum denomination requirement does not apply to time deposits representing funds contributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) section 408.

³ The highest permissible rate is currently 7.75 percent per annum (12 CFR 329.7 and 12 CFR 526.5).

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q †

Effective December 4, 1975, § 217.4(d) is amended by adding a sentence to the end thereof, to read as follows:

SECTION 217.4 — PAYMENT OF
TIME DEPOSITS BEFORE MATURITY

* * * * *

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

Where a time deposit representing funds con-

tributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) § 408 is paid before maturity when the individual for whose benefit the account is maintained attains age 59½ or is disabled (as defined in 26 U.S.C. (I.R.C. 1954) 72(m)(7)) or thereafter, a member bank may pay all or a portion of such time deposit without a reduction or forfeiture of interest as prescribed by this paragraph.

* * * * *

† For this Regulation to be complete as amended effective November 10, 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 November 27, 1974, Section 217.1(e)(1);
- 4) Amendments effective December 23, 1974, Section 217.4(e) and Section 217.6(e);
- 5) Amendment effective May 16, 1975, Section 217.1(e)(3);
- 6) Amendment effective June 5, 1975, Section 217.4(d) and amendment effective September 1, 1975, Section 217.3(f);
- 7) Amendment effective September 2, 1975, Section 217.5(c);
- 8) Amendment effective November 10, 1975, Section 217.1(e)(1);
- 9) Supplement effective December 4, 1975; and
- 10) This slip sheet.