

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-44
April 4, 1977

AMENDMENTS TO REGULATION Q

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

The Board of Governors of the Federal Reserve System has approved two amendments to Section 217.4(d) ("Penalty for early withdrawal") of Regulation Q. The first amendment changes the structure of the current paragraph of Regulation Q that states the Board's early withdrawal penalty rule and exceptions to that rule by providing a listing of those exceptions. The second amendment adds an additional exception to the Board's early withdrawal penalty rule. That amendment provides that where a depositor who maintains time deposits in two or more merging banks loses Federal deposit insurance coverage on a portion of his or her time deposits as a result of the merger, the surviving member bank may pay before maturity, without imposing the Regulation Q penalty for early withdrawal, that portion of the depositor's time deposit that is no longer covered by Federal deposit insurance.

Both amendments are effective as of March 24, 1977, and the section, as amended, is printed on the reverse of this circular.

Member banks and others that maintain Regulations Binders should file these amendments in their binders. Circular No. 76-160, which contains the prior wording of Section 217.4(d), should be retained since footnotes concerning Section 217.7(b) are found there also.

Any questions concerning the amendments to Regulation Q should be directed to Richard B. West or Eugene Coy of our Regulations Department, Ext. 6171. Additional copies of the amendments will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,
Robert H. Boykin
First Vice President

Banks and others are encouraged to use the following toll-free incoming WATS numbers in contacting this Bank: 1-800-492-4403 (intrastate) and 1-800-527-4970 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q†

Effective March 24, 1977, Section 217.4(d) is amended 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Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently prescribed in §217.7 for a savings deposit: *Provided*, That the depositor shall forfeit three months of interest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.¹¹ Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a change on the maturity of the deposit constitutes a payment of the time deposit before maturity. *Provided further*, That Investment 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 certifi-

cate 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. *Provided further*, That a time deposit may be paid before maturity without a reduction or forfeiture of interest as prescribed by this paragraph in the following circumstances:

(1) Where a member bank pays all or a portion of a time deposit upon the death of any person whose name appears on the time deposit pass-book or certificate;

(2) Where a member bank pays all or a portion of a time deposit representing funds contributed to an Individual Retirement Account or a Keogh (H.R. 10) plan established pursuant to 26 U.S.C. (I.R.C. 1954) §§408, 401 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; or

(3) Where a member bank pays that portion of a time deposit on which Federal deposit insurance has been lost as the result of the merger of two or more Federally insured banks in which the depositor previously maintained separate time deposits, for a period of one year from the date of the merger.

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† For this Regulation to be complete as amended effective March 24, 1977:

- 1) Printed Regulation pamphlet as amended December 4, 1975;
- 2) Supplement effective December 4, 1975;
- 3) Amendments effective March 1, 1976, to Sections 217.1(e)(3), 217.5(c)(3), and 217.6(i);
- 4) Amendment effective July 26, 1976, to Section 217.1(f)(3)(i);
- 5) Amendment effective November 8, 1976, to footnote 2 to subparagraphs (b)(2) and (b)(3) of the Supplement (Section 217.7); and
- 6) This slip sheet.

¹¹ 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.