FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-52
April 28, 1977

REGULATION Q--INTEREST ON DEPOSITS

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

The Board of Governors of the Federal Reserve System has adopted an amendment to its Regulation Q, "Interest on Deposits," to establish a new category of time deposits for Individual Retirement Accounts and Keogh plans. The amendment becomes effective July 6, 1977.

In announcing this action the Board issued the following statement to the press:

> The Board of Governors of the Federal Reserve System announced today that it is establishing a new category of time deposit accounts to benefit individuals saving for their retirement.
>
> The Board's action amended Regulation Q (Interest on Deposits) to create a category of deposits under which member banks could pay maximum interest rates for consumer-type time deposits to savers in Individual Retirement Accounts[1/] and Keogh Plan[2/] Retirement Accounts.
>
> The main features of the new class of retirement savings deposits are:
>
> -- It will become effective after 90 days (July 6, 1977).

1/ The Employee Retirement Income Security Act of 1974 (ERISA) permits individuals not covered by a retirement plan to deposit in Individual Retirement Accounts (IRAs) for retirement purposes, tax-deferred contributions up to $1,500 a year, or 15 percent of gross income, whichever is less.

2/ Keogh (H.R. 10) plan accounts were authorized under the Self-Employed Individuals Tax Retirement Act of 1962. The Act currently permits a self-employed person to deposit in a Keogh plan account tax-deferred contributions up to $7,500 a year, or 15 percent of gross income, whichever is less.

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.

-- Member banks may pay interest on IRA and Keogh plan time deposits at a rate of interest equal to the highest rate permissible under Regulation Q, for time deposits of any maturity or denomination under $100,000, by a Federally insured commercial bank, mutual savings bank or savings and loan association. This is presently 7.75 percent.

-- No minimum denomination would be required for this class of deposit.

-- A maturity of three years or more would be required.

-- However, as with other types of IRA or Keogh accounts, withdrawals may be made before maturity without penalty for early withdrawal if the depositor reaches the age of 59½, or is disabled.

-- Member banks may modify existing IRA or Keogh plan agreements to permit retirement savers to take advantage of this new rule.

Retirement savers may elect to use other types of time deposits for their IRA or Keogh plan funds, such as ordinary savings accounts or time deposits with maturities of less than three years. In such cases, the accounts will be subject to the existing ceiling rates of interest prescribed by Regulation Q.

In taking its action the Board noted a Congressional report indicating that about half of all employees in private employment are not covered by retirement plans.

The Board estimated that for retirement savers contributing the maximum yearly amount under a Keogh plan at a member bank for 30 years, the higher interest allowable under the new category could increase retirement savings by up to $50,000 and that the increase for participants under IRAs could be up to $10,000. At present, Regulation Q permits thrift institutions to pay a quarter of one percent more interest on such deposits than commercial banks may pay.

"Such a penalty for choosing deposits at a particular type of institution is clearly inconsistent with the objectives of maximizing the total amount of earnings on retirement savings that the Congress sought to encourage through establishment of IRA and Keogh programs" the Board's announcement said.

The Board's announcement noted that issues relating to the creation of a new deposit category for IRA or Keogh funds have been the subject of substantial public comment over the course of nearly two years.

In June 1975 the Board requested public comment on a number of questions relating to IRAs, including the questions whether the existing schedule of interest rate ceilings that can be paid on IRA deposits should be increased and whether member banks should be permitted to pay interest on IRA deposits at rates equal to those that may be paid by savings and loan associations and mutual savings banks. In July 1976, the Board announced that it was of the view that IRA participants should be permitted to obtain the highest rate of interest permissible on their retirement savings regardless of where the funds are maintained. It was anticipated that further action by the Board to permit member banks to offer IRAs on a fully competitive basis would be appropriate in early 1977. "Accordingly," the Board said, "the public has had ample opportunity to comment on the issues relevant to the Board's action establishing a special category of deposit for IRAs and Keoghs."

By adopting a final rule at this time, the Board said, public uncertainty about IRA and Keogh accounts will be removed and retirement savers may begin immediately to plan their retirement programs. The 90-day deferral of the effective date gives member banks time to make operational and other changes and will give them opportunity to compete for IRA and Keogh deposits on an equal basis.

The Board's announcement pointed out that preferred tax treatment was given to IRAs to encourage savings for retirement, and not to extend a competitive advantage for a particular class of financial institution.

A survey conducted by the Board indicated that as of December 31, 1976, commercial banks had obtained only 35 percent of the IRA market, while accounting for 47 percent of the total household time and savings deposit market (see enclosed table).

The Board's action was taken at this time because of a number of other reasons that it found compelling, including:

-- There is still a large number of people eligible to establish IRA or Keogh accounts who have not done so, due partly, the Board believes, to lack of advertising of such accounts by commercial banks due to their noncompetitive position.

-- Making retirement savings accounts of equal value at all depositories early in the year may avoid substantially diminishing the number of people who start retirement savings this year.

-- Banks and other financial institutions offering IRA and Keogh plan accounts will require a substantial amount of lead time to develop marketing plans that can be put into effect sufficiently in advance of year-end to be useful.

By previous action the Board has made IRA and Keogh plan deposits subject to the same rules under Regulation Q.

For the convenience of member banks and others that maintain Regulations Binders, we have updated the supplement to Regulation Q. Member banks and others should file the supplement, which is printed on the enclosed slip sheet, in their binders. Any questions concerning the updated supplement should be directed to Richard B. West or Eugene Coy, Jr., of our Regulations Department, Ext. 6171.

Additional copies of the updated supplement will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures

INDIVIDUAL RETIREMENT ACCOUNTS AND KEOGH ACCOUNTS AT
FEDERALLY INSURED DEPOSITORY INSTITUTIONS
March 31 and December 31, 1976

	Amount ($ Mils.)		Per Cent Distribution		Per Cent Distribution of Total Household Holdings of Time and Savings Deposits as of Dec. 31, 1976 1/
	Mar. 31	Dec. 31	Mar. 31	Dec. 31	
	(Individual Retirement Accounts)				
Commercial Banks	469	1,067	34	35	47
Mutual Savings Banks	244	504	18	16	15
Savings and Loan Associations	672	1,480 p/	48	49 p/	38
Total	1,385	3,051	100	100 p/	100
	(Keogh Accounts)				
Commercial Banks	150	n.a.	15	n.a.	47
Mutual Savings Bank	322	n.a.	33	n.a.	15
Savings and Loan Associations	512	n.a.	52	n.a.	38
Total	984	n.a.	100	n.a.	100

1/ Flow-of-Funds estimates.
p/ Preliminary
n.a. - Not available.

NOTE: Data for March 31 are based on universe reports. Data for December 31 are estimates from a sample survey of commercial and mutual savings banks and partial reports from a universe survey of savings and loan associations.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective July 6, 1977

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 rates[1] 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), (d), and (e), 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:

Maturity	*Maximum percent*
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]

(e) Individual retirement account and Keogh (H.R. 10) plan deposits of less than $100,000.

Except as provided in paragraph (a), a member bank may pay interest on any time deposit with a maturity of three years or more that consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, an individual pursuant to an Individual Retirement Account agreement or Keogh (H.R. 10) plan established pursuant to 26 U.S.C. (I.R.C. 1954) sections 408, 401, at a rate not 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 association.[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 or Keogh (H.R. 10) plan established pursuant to 26 U.S.C. (I.R.C. 1954) §§408, 401.

[3] The highest permissible rate is currently 7.75 perce nt per annum (12 CFR 329.7 and 12 CFR 526.5).