

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-138
December 8, 1977

REGULATION Q--INTEREST ON DEPOSITS

Loans Upon Security of Depositor's Time and Savings Deposits

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

The Board of Governors of the Federal Reserve System has lowered the minimum rate of interest that must be paid on a loan secured by a depositor's time or savings deposit at a member bank.

The Regulation Q rule for such loans has required that the interest rate on loans using as collateral a time deposit, or a savings deposit for which prior notice of withdrawal is required, may not be less than 2 percent above the rate being paid on the deposit.

Effective November 23, 1977, Regulation Q has been amended to provide that the minimum rate such borrowers must pay is 1 percent above the rate being paid on the deposit.

A minimum borrowing rate is set on such loans to avoid the use of loans to in effect withdraw time deposits before maturity without incurring the penalty for early withdrawal (loss of 90 days' interest and reduction of interest on the amount withdrawn to the passbook rate--5 percent at commercial banks--for the period the amount was held in the time deposit).

The reduced minimum applies to future interest payments on outstanding loans, as well as to new loans.

Printed on the reverse of this circular is a copy of the amendment for insertion in your Regulations Binder. Any questions concerning Regulation Q may be directed to our Examination Department, Consumer Affairs Section, at Ext. 6169 or Ext. 6171. Additional copies of the amendment will be furnished upon request to the Secretary's Office, Ext. 6267.

Sincerely yours,
Robert H. Boykin
First Vice President

Banks and others are encouraged to use the following 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†

1. Effective November 23, 1977, Section 217.4 (f) is amended to read as follows:

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

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(f) **Loans upon security of time deposits.** A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 1 percent per annum in excess of the rate of interest on the time deposit.

2. Effective November 23, 1977, Section 217.5 (b) is amended to read as follows:

SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

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(b) **Loans on security of savings deposits.** ***
If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 1 percent per annum in excess of the rate of interest paid on such deposit.

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† For this Regulation to be complete as amended effective December 1, 1977, retain:
1) Printed Regulation pamphlet as amended December 4, 1975;
2) Amendments effective March 1, 1976, to Sections 217.1(e)(3), 217.5(c)(3), and 217.6(i);
3) Amendment effective July 26, 1976, to Section 217.1(f)(3)(i);
4) Supplement effective July 6, 1977;
5) Amendments effective December 1, 1977, to Section 217.4(d) and 4(d)(i); and
6) This slip sheet.