

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 77-139  
December 8, 1977

REGULATION Q--INTEREST ON DEPOSITS

Penalty for Early Withdrawals  
Payment of Time Deposits Before Maturity

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

The Board of Governors of the Federal Reserve System has adopted two amendments to Regulation Q, "Interest on Deposits," concerning the payment of time deposits before maturity. The amendments are effective December 1, 1977.

The first amendment permits member banks, at the request or upon permission of their depositors, to extend the maturity of a time deposit without penalty where there is no increase in the rate of interest. The second permits member banks to pay a time deposit before maturity without penalty upon the death of any owner of the deposit, whether or not that owner's name appears on the deposit. These changes were modified to provide consumers with more flexibility in handling their time deposit accounts and to ease the administrative burden in the settlement of estates.

Rules in effect prior to December 1 required that an extension of maturity be treated as a payment of a time deposit before maturity subject to the penalty for early withdrawal. Also, a member bank may pay a time deposit before maturity without penalty following the death of a person whose name appears on the deposit.

The Board's rules in this respect will now be the same as those of the Federal Deposit Insurance Corporation and of the Federal Home Loan Bank Board.

Reductions in the maturity, as well as increases in the rate of interest paid on the deposit, will continue to be treated as an early withdrawal subject to penalty.

The penalty for withdrawal of a time deposit before maturity is (a) a reduction of the interest rate paid on the portion of the time deposit withdrawn to the maximum permissible passbook savings rate, and (b) a loss of three months' interest on the portion withdrawn.

Customers entering into a time deposit contract must be supplied with a written statement specifying that the customer has contracted to keep the funds on deposit for a fixed time, and describing the penalty for early withdrawal.

Printed on the reverse of this circular is a copy of the amendments for insertion in your Regulations Binder. Please note that several amendments to this Section of Regulation Q (217.4) have been consolidated for your convenience. Any questions regarding Regulation Q should be directed to the Examination Department, Consumer Affairs Section, at Ext. 6169 or Ext. 6171. Additional copies will be furnished upon request to the Secretary's Office, Ext. 6267.

Sincerely yours,  
Robert H. Boykin  
First Vice President

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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†

Effective December 1, 1977, Section 217.4(d) and 4(d)(1) are amended to read as follows:

#### SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

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(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.<sup>11</sup> Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a reduction in 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 owner of the time deposit funds;<sup>11a</sup>

(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 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; and
- 5) This slip sheet.

<sup>11</sup>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.

<sup>11a</sup>For the purposes of this provision, an "owner" of time deposit funds is any individual who at the time of his or her death has full legal and beneficial title to all or a portion of such funds or, at the time of his or her death, has beneficial title to all or a portion of such funds and full power of disposition and alienation with respect thereto.