FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-62
May 17, 1978

REGULATION Q--INTEREST ON DEPOSITS

Maximum Rates of Interest Payable by Member Banks
On Two New Categories of Time Deposits

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

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

Commercial banks, mutual savings banks, and savings and loan associations will be able to offer their customers two new types of time certificates at interest rates higher than those presently permitted under action announced jointly today (May 11, 1978) by the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, and the Federal Reserve Board.

The action, which is effective June 1, will provide more flexibility for financial institutions to compete for funds to assure an adequate flow of credit into housing and to meet other borrowing needs.

The two new instruments are (1) a short-term money market certificate with a ceiling interest rate that changes weekly for new deposits with changes in the average yield on new issues of six-month Treasury bills, and (2) an eight-year certificate with a fixed maximum rate of interest.

Interest rates available on Treasury securities in the open market now exceed the maximum rates that banks and savings and loan associations are permitted to pay on comparable deposit maturities. The two new certificates will provide these institutions with the tools to make them more competitive with interest rates in the open market.

The action by the Federal Home Loan Bank Board applies to members of the Federal Home Loan Bank System principally federally insured savings and loan associations, the FDIC's to federally insured mutual savings banks, and commercial banks that are not members of the Federal Reserve System and the Federal Reserve's to commercial banks that are members of the Federal Reserve System, including all national banks.

Today's announcement was made after consultation among the three agencies and with the U.S. Treasury Department and the Comptroller of the Currency.

No change was made in the savings passbook rates or in the maximum permissible rates that may be paid by banks or savings and loan associations on time deposits ranging from 30 days to less than eight years.

The main features of the two new instruments are:

1. Money Market Certificate--this will have many of the characteristics of a six-month Treasury bill. It must be issued in minimum denominations of $10,000 with a six-month (26 week) maturity. The maximum permissible rate of interest that may be paid will be tied to the average (auction) yield for the six-month Treasury bill in the most recent weekly auction.

Treasury bills are auctioned weekly, normally on Monday, and are issued three business days later, normally on Thursday. The ceiling rate on the money market certificates--which are nonnegotiable--will be adjusted each week effective on the day the new six-month bills are issued. Commercial banks may pay a rate not to exceed the auction average (auction average on a discount basis), and savings and loan associations and mutual savings banks may pay one-quarter of one percent more. If a holiday falls on Monday, the auction is held the previous Friday.

The average yield on Treasury bills is announced by the Treasury Department late in the day of the auction. The average yield on six-month Treasury bills auctioned last Monday was 6.986 percent. Since institutions may offer this new certificate for the first time beginning June 1, the ceiling rate will be pegged initially to the Treasury bill auction to be held Friday, May 26.

2. Long-term certificate--this may be issued in minimum denominations of $1,000 at maturities of eight years or more at a maximum rate of 7 3/4 percent for commercial banks and 8 percent for savings and loan associations and mutual savings banks.

The introduction of an eight-year fixed-ceiling certificate will not only add to the ability of financial institutions to compete more effectively for funds, but it will also have the advantage of lengthening the deposit structure of institutions, thus contributing to greater stability in the cost and availability of funds.

Both the money market certificate and the new long-term certificate are subject to existing penalties for early withdrawal, namely a loss of 90 days' interest and the payment of any remaining interest at the passbook rate. All issuing institutions, however, are permitted to lend on the collateral of their time deposits, so long as the loan carries an interest rate at least one percent higher than the rate being paid on the deposit pledged.

As a result of the joint action, the maximum permissible rate that may be paid by all depository institutions on new deposits of governmental units and Individual Retirement (IRA) and Keogh Accounts will move to 8 percent. This ceiling rate is fixed at the highest rate a federally insured bank or savings and loan may pay on time deposits of maturities of more than 6 months (26 weeks). Rates on existing governmental, IRA, and Keogh Accounts may not be increased until they mature.

Following is a table showing the new ceiling rates on time and savings deposits:

	Maximum Permissible Rate	
Type of Deposit	For Commercial Banks	For Savings and Loan Associations and Mutual Savings Banks
Savings	5	5 1/4
Negotiable Order of Withdrawal (New England only)	5	5
Money Market Certificate (6 months)	Average yield on 6-month Treasury bills in latest weekly auction	1/4 percent above the average yield on 6-month Treasury bills in latest weekly auction
Other Time Deposits		
30 to 89 days	5	no category
90 days to 1 year	5 1/2	5 3/4
1 to 2 1/2 years	6	6 1/2
2 1/2 to 4 years	6 1/2	6 3/4
4 to 6 years	7 1/4	7 1/2
6 to 8 years	7 1/2	7 3/4
8 years or more	7 3/4	8
Governmental Units, IRA and Keogh Accounts	8	8

Printed on the following pages is a copy of the Board's order as submitted for publication in the FEDERAL REGISTER. In addition, enclosed is a copy of the supplement to Regulation Q for insertion in your Regulations Binder. Any questions may be directed to the Bank Supervision and Regulations Department, Consumer Affairs Section, at Ext. 6171 or 6181. Additional copies of the supplement will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

(REGULATION Q)

(Docket No. R-0161)

Part 217--INTEREST ON DEPOSITS

Maximum Rates of Interest Payable

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board has amended its regulations to authorize member banks to offer to depositors two new categories of time deposits. The first new category permits member banks to pay interest at a maximum ceiling rate up to 7 3/4 percent on time deposits of $1,000 or more with maturities of eight years or more. The second new category established by the Board authorizes member banks to pay interest on nonnegotiable time deposits of $10,000 or more with maturities of six months (26 weeks) at a maximum rate equal to the discount yield on the most recently issued six-month United States Treasury bills (auction average).

EFFECTIVE DATE: June 1, 1978.

FOR FURTHER INFORMATION, CONTACT: Allen L. Raiken, Associate General Counsel, ((202) 452-3625) or Gilbert T. Schwartz, Senior Attorney ((202) 452-3623) Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Effective June 1, 1978, the Board has amended Regulation Q to establish two new categories of time deposits. Under the provisions of the first new deposit category, member banks will be permitted to pay interest to depositors at a maximum rate of 7 3/4 percent on deposits of $1,000 or more maturing in eight or more years. This new deposit category should enable savers to obtain higher rates on their funds.

The second new deposit category established by the Board authorizes member banks to pay interest on nonnegotiable time deposits of $10,000 or more with maturities of six months (26 weeks) at a maximum rate equal to the discount yield on the most recently issued six-month United States Treasury bills (auction average). United States Treasury bills maturing in six months (26 weeks) are auctioned weekly by the Treasury Department, normally on Monday, and are issued three business days later, normally on Thursday. Beginning on the date the six-month United States Treasury bills are issued (normally on Thursday), member banks may pay interest on deposits of $10,000 or more maturing in six months at a rate not more than the auction average rate (discount basis) established for such bills and may continue to pay that rate for new deposits until new six-month United States Treasury bills are issued, at which time the rate paid on such bills becomes the ceiling rate for new deposits. The six-month United States Treasury bill rate is published widely in many newspapers throughout the country.

The deposits must be issued in nonnegotiable form and must possess a maturity of six months (26 weeks). Maturities of more than six months are not permitted. During the six months the deposit remains outstanding, the rate paid by member banks may not exceed the ceiling rate in effect on the date of deposit. If such deposits are renewed, automatically or otherwise, the maximum rate that may be paid may not exceed the six-month Treasury bill rate (discount basis) in effect at the time of renewal of the deposits.

Member banks will be permitted to pay up to the average auction rate paid (discount basis). Should a member bank desire to round off the ceiling rate, such rate may only be rounded down. For example, if the auction average rate for six-month Treasury bills is 6.4638 percent on a discount basis, a member bank may round the rate to 6.463 percent, 6.46 percent, or 6.4 percent. The rate may not be rounded up. However, in accordance with §217.3 of Regulation Q, in ascertaining the rate of interest that may be paid, the effects of compounding of interest may be disregarded and interest may be computed in accordance with any of the methods authorized by §217.3(e) of Regulation Q.

In accordance with §217.4(d) of Regulation Q (12 CFR 217.4(d)), if the deposit, or any portion, is paid before maturity, the member bank may pay interest on the amount withdrawn at a rate not to exceed that prescribed for savings deposits (currently 5 percent) and, in addition, a forfeiture of three months' omterest at such rate is required. If the amount withdrawn has been on deposit for three months or less, all interest shall be forfeited. All member banks, however, are permitted to lend on the collateral of their time deposits so long as the rate charged for the loan is at least one percent higher than the rate being paid on the deposit pledged.

Existing provisions of Regulation Q provide that member banks may pay interest on governmental unit time deposits under $100,000 with maturities of 30 days or more (12 CFR 217.7(d)) and Individual Retirement Account and Keogh (H.R. 10) Plan deposits of less than $100,000 with maturities of three years or more (12 CFR 217.7(e)) 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. Since the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation are taking action to establish a new category of time deposit for Federally insured savings and loan associations and mutual savings banks at a ceiling rate of 8 percent, member banks may pay 8 percent on governmental unit time deposits and IRA/Keogh time deposits with three year maturities. The higher 8 percent rate may be paid only on new time deposits or additional funds deposited to existing accounts. Rates paid by member banks on funds currently on deposit in governmental unit and IRA/Keogh time deposits may not be increased prior to the maturity of such funds. The maximum rates that may be paid on governmental unit and IRA/Keogh time deposits will not be determined by the ceiling rates established for the new six-month $10,000 deposit category whose ceiling rate is associated with the six-month Treasury bill rate.

The Board's actions were taken at this time, after consultation with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the United States Department of the Treasury, in order to increase returns for savers by providing deposit categories that are competitive with interest rates available in the market on instruments possessing similar characteristics. Creation of the new deposit categories at this time should increase the flow of mortgage credit and assist the housing market. In order to facilitate the achievement of these objectives as rapidly as possible, the Board finds that application of the notice and public participation provisions of 5 U.S.C. §553 to these actions would be contrary to the public interest and that good cause exists for making the amendments effective in less than 30 days.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective June 1, 1978

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), (e), and (f) and subparts (2), (3), and (4) 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]

(4) Member banks may pay interest on any time deposit of $1,000 or more, with a maturity of eight years or more, at a rate not to exceed 7¾ 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.**

Except as provided in paragraphs (a) and (f), 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 with maturities in excess of six months (26 weeks) by any Federally insured commercial bank, mutual savings bank or savings and loan association.[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) §§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 with maturities in excess of six months (26 weeks) by any Federally insured commercial bank, mutual savings bank, or savings and loan association.[3]

(f) **Variable rate time deposits of less than $100,000.**

Member banks may pay interest on any nonnegotiable time deposit of $10,000 or more, with maturity of six months (26 weeks), at a rate not to exceed the rate established (auction average on a discount basis) for United States Treasury bills with maturities of six months issued on or immediately prior to the date of deposit. Rounding such rate to the next higher rate is not permitted.

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[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 8.00 percent per annum (12 CFR 329.7 and 12 CFR 526.5).