FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 78-72
June 5, 1978

REGULATION Q--INTEREST ON DEPOSITS

Maximum Rates of Interest Payable on IRA and Keogh Accounts

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:

The Board of Governors of the Federal Reserve System today (May 26, 1978) announced that member banks will be permitted to pay up to 8 percent interest on all Individual Retirement and Keogh accounts beginning June 1.

The Board announced on May 11 that the ceiling rate of interest of IRA and Keogh accounts will be raised to 8 percent on June 1 only for funds deposited on or after that date. The existing ceiling rate of 7 3/4 percent was to continue to apply to IRA and Keogh deposits made before then.

Since that time the Board has received numerous comments indicating that a "split" rate for IRA and Keogh accounts would cause substantial and costly operational problems for member banks with no offsetting benefits to either consumers or the banks.

In view of these problems, the Board will permit payment of the higher 8 percent rate, effective June 1, for both new and outstanding time deposits held in IRA and Keogh accounts.

The Board said its action should not be regarded as a precedent for any possible future changes in ceiling rates on outstanding IRA/Keogh accounts.

A copy of the Board's order is enclosed. Similar action is expected to be considered by the Federal Deposit Insurance Corporation for federally insured mutual savings banks and commercial banks that are not members of the Federal Reserve System, and by the Federal Home Loan Bank Board for members of the Federal Home Loan Bank System, principally federally insured savings and loan associations.

This change to Regulation Q will not effect the Supplement effective June 1, 1978, forwarded to you under Circular No. 78-62 dated May 17, 1978, since the action taken was a Board policy interpretation.

Any questions may be directed to the Bank Supervision and Regulations Department, Consumer Affairs Section, at Ext. 6171 or 6181.

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-0166)

Part 217--INTEREST ON DEPOSITS

Maximum Rates of Interest Payable

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: In its Order dated May 11, 1978 (43 FR 21453), the Board announced an amendment to Regulation Q, effective June 1, 1978, that permits member banks to offer to depositors two new categories of time deposits and provided that member banks may pay interest on Individual Retirement Account (IRA) or Keogh (H.R. 10) Plan time deposits under $100,000 at a rate not in excess of 8 percent. The Board stated that the 8 percent rate could be paid only on new time deposits or additional funds deposited to existing accounts on or after June 1 and that rates paid by member banks on funds currently on deposit in IRA/Keogh time deposits could not be increased prior to the maturity of such funds. After consideration of the operational problems member banks would face as a result of this decision, the Board has determined to permit member banks to pay the new 8 percent rate, effective June 1, 1978, on any outstanding time deposits held in IRA or Keogh Plan accounts.

EFFECTIVE DATE: June 1, 1978.

FOR FURTHER INFORMATION, CONTACT: Gilbert T. Schwartz, Senior Attorney, (202/452-3623) or Anthony F. Cole, Attorney, (202/452-3711) Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Effective June 1, 1978, the Board amended Section 217.7 of Regulation Q (12 CFR 217.7) to establish two new categories of time deposits. Under the provisions of the first new deposit category, member banks are 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 years or more. 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 26 weeks at a maximum rate equal to the discount rate (auction average) on the most recently issued six-month United States Treasury bills.

In addition, the Board amended, effective June 1, 1978, the existing provisions of Regulation Q that provide that member banks may pay interest on Individual Retirement

Account and Keogh (H.R. 10) Plan time 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. The provision was amended to provide that the rate paid on such time deposits shall be 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.

In this connection, the Board stated that since the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation were taking action, effective June 1, to establish a new category of time deposit with a maturity of eight or more years 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 IRA/Keogh time deposits with maturities of three or more years. The Board further stated, however, that the new 8 percent rate may be paid only on new time deposits or additional funds deposited to existing accounts, and that rates paid by member banks on funds currently on deposit in IRA/Keogh time deposits may not be increased prior to the maturity of such funds.

The Board has now determined to permit member banks, effective June 1, to increase the rate of interest paid on existing IRA and Keogh Plan time deposit funds with original maturities of three years or more. The rate of interest paid on existing IRA and Keogh funds with maturities of less than three years may also be increased to 8 percent, effective June 1, if the maturities of such obligations are extended to three years or more from the date of the increase in the rate of interest paid.

The Board is taking this action on the basis of comments received which indicate that the Board's earlier determination not to permit an increase in the rates of interest paid on outstanding IRA and Keogh funds would cause substantial and costly operational problems with no offsetting benefit to either banks or consumers. The Board stated, however, that its action should not be regarded as establishing a precedent and that should ceiling rates of interest be changed in the future, the Board may not necessarily permit the ceiling rate of interest payable on existing retirement savings to change.

It is anticipated that this action will alleviate operational problems and will result in substantial public benefits by permitting existing retirement savers to obtain the most advantageous IRA and Keogh programs. In order to facilitate the achievement of these objectives and since this action relieves an existing regulatory restriction, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest and that good cause exists for making this action effective in less than 30 days. The Board's action is taken at this time, after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, pursuant to its authority under Section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b).

By order of the Board of Governors, May 26, 1978.

(Signed) Griffith L. Garwood
Deputy Secretary of the Board

(SEAL)