

**FEDERAL RESERVE BANK OF DALLAS**

**DALLAS, TEXAS 75222**

**Circular No. 79-60  
March 26, 1979**

**AMENDMENT TO REGULATION Q--INTEREST ON DEPOSITS**

**Money-Market Certificates: Prohibition of Compounding  
and Advertising Requirements**

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

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration have consulted and determined that the following rule changes became effective March 15, 1979:

- 1. No member bank or other financial institution may compound the interest paid on money-market certificates of deposit sold on or after March 15, 1979. The no compounding rule applies only to money-market CDs. It is not retroactive and does not apply to those existing money-market certificates sold prior to March 15. When such old certificates are renewed, the no compounding rule will apply to the renewal instrument.**
- 2. No member bank or other financial institution may advertise for money-market funds unless the advertisement contains the phrase, "Federal regulations prohibit the compounding of interest during the term of this deposit." Since compounding is permitted for all other categories of deposits, the Board believes that all bank advertisements, announcements, solicitations, account brochures, and other literature should clearly and conspicuously set forth the no compounding rule for money-market instruments.**

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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.

3. Insured savings and loan institutions, savings banks, and credit unions will lose the 1/4 point differential they routinely enjoy over banks whenever the money-market auction rate (average discount) is 9% or higher. Banks and savings and loans will be able to offer the instruments at the same competitive rate of interest. Under the new rules, there is no ceiling established at 9% as some bankers have thought.

Only the prohibition on compounding and the advertising requirement directly affect commercial banks. The money-market certificate of deposit was created June 1, 1978, for those depositors with \$10,000 or more to invest for a minimum period of 182 days. The maximum rate to be paid on these instruments is still set each week based upon the discount rate (auction average) established for U.S. Treasury bills of a 26-week maturity.

Enclosed you will find a copy of the two amendments first mentioned in our Circular No. 79-45, dated March 9, 1979. Member banks and others that maintain Regulations Binders should file the enclosed amendments in their binders. Any questions regarding Regulation Q should be directed to our Consumer Affairs Section of the Bank Supervision and Regulations Department, Ext. 6171.

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

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q†

Effective March 15, 1979, §§217.6 and 217.7 of Regulation Q are amended by adding the following:

SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

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(j) Any advertisement, announcement, or solicitation relating to interest paid by a member bank on a time deposit of \$10,000 or more with a maturity of 26 weeks at a rate not in excess of the rate established (auction average on a discount basis) for United States Treasury bills with maturities of six months shall include a clear and conspicuous notice that Federal regulations prohibit the compounding of interest during the term of the deposit.

SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

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

Member banks may not compound interest during the term of this deposit.

†For this Regulation to be complete as amended effective March 15, 1979, retain:

- 1) Printed Regulation pamphlet as amended December 6, 1978;
- 2) Supplement effective June 1, 1978; and
- 3) This slip sheet.