

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-54  
March 20, 1980

AMENDMENT TO REGULATION Q

Interest Rate Limits on Debt Instruments  
Issued by Bank Holding Companies

TO ALL MEMBER BANKS,  
BANK HOLDING COMPANIES,  
AND OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended, effective March 14, 1980, its Regulation Q, "Interest on Deposits," to impose interest rate limitations on debt instruments that are issued by a bank holding company in denominations of \$100,000 or less and with maturities of four years or less. The amendment applies only to obligations required to be registered with the Securities and Exchange Commission under the 1933 Act, and not to commercial paper issued by a member bank's parent bank holding company.

Enclosed is a copy of the amendment as it was submitted for publication in the Federal Register. A copy of the amendment in final form for insertion in your Regulations Binders will be transmitted at a later date.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosure

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Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

TITLE 12 -- BANKS AND BANKING

CHAPTER II -- FEDERAL RESERVE SYSTEM

[Regulation Q]

(Docket No. R-0279)

Part 217 - INTEREST ON DEPOSITS

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board of Governors has amended Regulation Q (12 CFR Part 217) to impose interest rate limitations on certain obligations issued by a member bank's parent bank holding company. The amendment will apply to an obligation with a denomination of less than \$100,000 issued or guaranteed by a bank holding company, regardless of the use of the proceeds, with an original maturity of 4 years or less, or redeemable by the holder in 4 years or less. Obligations with original maturities of 2-1/2 years to 4 years, or redeemable in periods of 2-1/2 years to 4 years, will be subject to the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. Obligations in denominations of \$10,000 or more with original maturities between 26 weeks and 2-1/2 years, or redeemable in periods of 26 weeks to 2-1/2 years, will be subject to the ceiling rate of interest payable by member banks on 26-week money market time deposits of less than \$100,000. Obligations in denominations of less than \$10,000 with original maturities of less than 2-1/2 years, or redeemable in periods of less than 2-1/2 years will be subject to the same interest rate limitations applicable to comparable obligations of member banks. The amendment does not apply to commercial paper issued by a member bank's parent bank holding company. This action is being taken in order to facilitate the orderly administration of currently prescribed interest rate limitations.

EFFECTIVE DATE: March 14, 1980.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Assistant General Counsel (202/452-3625); Anthony F. Cole, Senior Attorney (202/452-3612) or Paul S. Pilecki, Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Board of Governors has amended Regulation Q (12 CFR §§ 217.1 and 217.7) to apply Regulation Q interest rate ceilings to certain obligations issued or guaranteed, in whole or in part, as to principal or interest by a member bank's parent bank holding company. The amendment applies to any obligation, regardless of the use of the proceeds, issued in a denomination of less than \$100,000 that has an

original maturity of 4 years or less, or that is redeemable by the holder in periods of 4 years or less. Obligations with original maturities of 2-1/2 years to 4 years, or redeemable between 2-1/2 years and 4 years, will be subject to the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. Obligations in denominations of \$10,000 or more with original maturities of 26 weeks to 2-1/2 years, or redeemable in periods of 26 weeks to 2-1/2 years, will be subject to the ceiling rate of interest payable by member banks on 26-week money market time deposits of less than \$100,000. In addition, obligations in denominations of less than \$10,000 with original maturities of less than 2-1/2 years, or redeemable in periods of less than 2-1/2 years, will be subject to the interest rate limitations applicable to comparable obligations of member banks.

With respect to obligations redeemable at specified intervals at the holder's option, the rate of interest payable on such obligations must be adjusted at the beginning of each such interval. The maximum rate of interest that may be paid for the period during the specified redemption intervals will be determined by applying the Regulation Q rules in effect at the time the obligation was issued. For example, on March 17, 1980, a parent bank holding company subject to this action issues an obligation with redemption intervals between 2-1/2 to 4 years. The maximum rate of interest that may be paid during each redemption interval will be determined by the rule in effect as of March 17 for determining the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit. This rule provides that a member bank may pay interest at a rate of 11-3/4 per cent or 75 basis points below the yield on 2-1/2 year Treasury securities, whichever is less. Consequently, the maximum rate that may be paid on the obligation during the first redemption interval is 11-3/4 per cent. The maximum rate that may be paid during subsequent redemption intervals will be 11-3/4 per cent or 75 basis points below the yield on 2-1/2 year Treasury securities, whichever is less. This procedure for determining the maximum rate payable during each redemption interval will apply even if the rule relating to the determination of the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit is modified. If, however, the rule relating to the determination of the ceiling rate of interest payable on the 2-1/2 year variable ceiling time deposit is modified, the new rule would apply to bank holding company obligations issued on or after the effective date of the new rule.

The amendment applies only to obligations required to be registered with the Securities and Exchange Commission under the Securities Act of 1933 and, consequently, the amendment does not apply to commercial paper issued by a member bank's parent bank holding company. The amendment applies to covered obligations regardless of the use of the proceeds -- i.e., even if the proceeds are not being supplied to the parent bank holding company's member bank subsidiary or subsidiaries. However, if a bank holding company directly issues obligations subject to interest rate limitations imposed by the Federal Deposit Insurance Corporation or the Federal Home Loan Bank Board pursuant to P.L. 89-597, such obligations will not be subject to the interest rate limitations imposed by this action.

The Board has concluded that regulations pertaining to the rates that may be paid on obligations issued by bank holding companies in denominations of less than \$100,000 with original maturities of 4 years or less are necessary at this time in view of the impact the issuance of such obligations is likely to have on deposit flows among depository institutions. Such obligations typically are issued at rates substantially in excess of the Regulation Q ceiling rates of interest payable by member banks on time deposits of comparable maturities and are competitive with consumer deposits issued by depository institutions. The Board believes that such obligations generally should be subject to the interest rate limitations imposed upon member banks.

The Board's action was taken after consultation with the Federal financial institution regulatory agencies. In order to facilitate the administration of currently prescribed deposit interest rate limitations, 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 the amendment effective immediately.

Pursuant to its authority under sections 19(a) and (j) of the Federal Reserve Act (12 U.S.C. §§ 461 and 371b), the Board amends Regulation Q (12 CFR 217), effective March 14, 1980, as follows:

1. Section 217.1 of Regulation Q is amended by adding:

§ 217.1 -- DEFINITIONS

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(h) Obligations issued by the parent bank holding company of a member bank. For the purposes of this Part, the "deposits" of a member bank also includes an obligation that is (1) issued in a denomination of less than \$100,000; (2) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (3) issued or guaranteed in whole or in part as to principal or interest by the member bank's parent which is a bank holding company under the Bank Holding Company Act of 1956, as amended (12 U.S.C. §§ 1841-1850), regardless of the use of the proceeds; and (4) issued with an original maturity of 4 years or less, or which is redeemable at intervals of 4 years or less at the option of the holder. The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to P.L. 89-597.

2. Section 217.7 of Regulation Q is amended by adding:

§ 217.7 -- MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

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(h) Obligations of the parent bank holding company of a member bank. Notwithstanding the above, interest may be paid on a deposit as defined in § 217.1(h) of this Part at a rate not to exceed the following schedule:

Original Maturity or Redemption Period

Maximum Per Cent

2-1/2 to 4 years

For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 2-1/2 year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 2-1/2 year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For a successive period thereafter, interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for 2-1/2 year variable ceiling time deposits established pursuant to the provisions of § 217.7(g) in effect at the time the obligation was issued.

26 weeks or more but less than 2-1/2 years (\$10,000 minimum denomination required)

For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For a successive period thereafter, interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for 26-week money market time deposits established pursuant to the provisions of § 217.7(f) in effect at the time the obligation was issued.

Original Maturity or Redemption Period

Maximum Per Cent

30 days or more but less  
than 2-1/2 years  
(No minimum denomination required)

Interest may be paid at the ceilings  
established pursuant to the provisions  
of § 217.7(b) in effect at the time  
the obligation is issued.

less than 30 days

No interest may be paid.

By order of the Board of Governors, effective March 14, 1980.

(signed) Theodore E. Allison

Theodore E. Allison  
Secretary of the Board

[SEAL]