

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-65

April 1, 1980

AMENDMENTS AND SUPPLEMENT TO REGULATION Q

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

Effective March 14, 1980, the Board adopted an amendment to Regulation Q concerning interest rate limits on debt instruments issued by bank holding companies. Enclosed is a final copy of all amendments to Regulation Q and a new Supplement dated March 1980 to be inserted into your Regulations Binder. For this Regulation to be complete, retain the pamphlet dated December 1978, the enclosed Supplement, and the enclosed slip sheet. All previous amendments should be removed and destroyed.

Additional copies of the amendments will be furnished upon request to the Secretary's Office of this Bank, Ext. 6267. Questions concerning the regulation may be directed to the Consumer Affairs Section of the Bank Supervision and Regulations Department, Ext. 6171.

Sincerely yours,

Robert H. Boykin

First Vice President

Enclosures (2)

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q †

As amended effective March 14, 1980

Effective March 15, 1979, section 217.6 is amended as follows:

SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

* * * * *

(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.

Effective July 1, 1979, sections 217.4 and 217.6 are amended as set forth below:

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(d) **Penalty for early withdrawals.** Where a time deposit with an original maturity of one year or less, or any portion thereof, is paid before maturity, a depositor shall forfeit at least three months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount withdrawn has remained on deposit for less than three months, all interest shall be forfeited. Where a time deposit with an original maturity of more than one year, or any portion thereof, is paid before maturity, a depositor shall forfeit at least six months interest on the amount withdrawn at the rate being paid on the deposit. If the amount has remained on deposit for less than six months, all

interest shall be forfeited.¹¹ 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. 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. A time deposit may be paid before maturity without a forfeiture of interest as prescribed by this paragraph in the following circumstances: * * *

(e) **Disclosure of early withdrawal penalty.** At the time a depositor enters into a time deposit contract with a member bank, the bank shall provide a written statement of the effect of the penalty prescribed in paragraph (d) of this section, which shall (1) state clearly that the customer has contracted to keep his funds on deposit for the stated maturity, and (2) describe fully and clearly how such penalty provisions apply to time deposits in such bank, in the event the bank, notwithstanding

¹¹ The provisions of this paragraph apply to all time deposit contracts entered into on or after July 1, 1979, and to all existing time deposit contracts that are extended or renewed (whether by automatic renewal or otherwise) on or after such date. 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 1, 1979, which provided that 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 prescribed in §217.7 for a savings deposit and 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.

† For this Regulation to be complete as amended March 14, 1980, retain:

- 1) Regulation pamphlet dated December 1978.
- 2) Supplement slip sheet dated March 1980.
- 3) This slip sheet. (Destroy slip sheet dated August 1979.)

the contract provisions, permits payment before maturity. Such statements shall be expressly called to the attention of the customer.

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SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

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(e) **Penalty for early withdrawals.** Any advertisement, announcement, or solicitation relating to interest paid by a member bank on time deposits shall include clear and conspicuous notice that the bank is prohibited from allowing payment of a time deposit before maturity unless substantial interest is forfeited. Such notice may state that,

“Substantial interest penalty is required for early withdrawal.”

* * * * *

Effective August 1, 1979, sections 217.1, 217.3, and 217.4 are amended as follows:

SECTION 217.1—DEFINITIONS

* * * * *

(f) **Deposits as including certain promissory notes and other obligations.** For the purposes of this Part, the term “deposits” also includes any member bank’s liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

* * * * *

(2) Evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase, and

(a) is issued in denominations of \$100,000 or more; or

(b) is issued in denominations of less than \$100,000, matures in less than 90 days and is not automatically renewable or extended;^{5a}

* * * * *

^{5a} A member bank with such obligations issued in denominations of less than \$100,000 with maturities of 90 days or more may continue to issue such obligations until August 1, 1982, without regard to this subparagraph. However, the aggregate amount of such obligations outstanding on a member bank’s books may not exceed the total of such obligations outstanding on its books on August 1, 1979.

SECTION 217.3—INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate.** * * * The maximum rate of interest that may be paid by a member bank on an additional deposit to any existing time deposit shall not exceed the maximum rate that may be paid in accordance with § 217.7 on the date the additional deposit is made.

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SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(d) **Penalty for early withdrawals.** Where a time deposit with an original maturity or required notice period of one year or less, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least three months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount withdrawn has remained on deposit for less than three months, all interest on the amount withdrawn shall be forfeited. Where a time deposit with an original maturity or required notice period of more than one year, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least six months interest on the amount withdrawn at the rate being paid on the deposit. If the amount has remained on deposit for less than six months, all interest on the amount withdrawn shall be forfeited.¹¹ 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. Any amendment of a time deposit

¹¹ The provisions of this paragraph apply to all time deposit contracts entered into on or after July 1, 1979, and to all existing time deposit contracts that are extended or renewed (whether by automatic renewal or otherwise) on or after such date. The provisions of this paragraph also may be applied, with the consent of the depositor, to all other time deposit contracts entered into before July 1, 1979. 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 1, 1979, which provided that 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 prescribed in §217.7 for a savings deposit and 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.

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. A time deposit may be paid before maturity without a 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 representing funds contributed to an Individual Retirement Account or a Keogh (H.R. 10) Plan established pursuant to 26 U.S.C. (IRC 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

(2) 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.

A time deposit must be paid before maturity without a 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^{11a} of the time deposit funds; or

(2) Where a member bank pays all or a portion of a time deposit when the owner^{11a} of the time deposit is determined to be legally incompetent

by a court or other administrative body of competent jurisdiction.* * *

* * * * *
Effective March 14, 1980 section 217.1 is amended by adding subparagraph (h) as follows:

SECTION 217.1—DEFINITIONS

* * * * *
(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.

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

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q †

As amended effective March 14, 1980

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 of this Part, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates¹ 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) **Fixed ceiling time deposits of less than \$100,000.** Except as provided in paragraphs (a), (d), (e), (f), and (g), no member bank shall pay interest on any time deposit at a rate in excess of the applicable rate under the following schedule:

<i>Maturity</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5¼
90 days or more but less than 1 year	5¾
1 year or more but less than 2½ years	6
2½ years or more but less than 4 years	6½
4 years or more but less than 6 years	7¼
6 years or more but less than 8 years	7½
8 years or more	7¾

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5¼ per cent on any savings deposit. Provided, however, that no mem-

¹ The limitation 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.

ber bank shall pay interest at a rate in excess of 5 per cent on any savings deposit that is 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), (f), and (g), 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 8 per cent.²

(e) **Individual Retirement Account and Keogh (H.R. 10) Plan deposits of less than \$100,000.** Except as provided in paragraphs (a) and (g), a member bank may pay interest on any time deposit with a maturity of three years or more than 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 8 per cent.²

(f) **26-week money market time deposits of less than \$100,000.** Except as provided in paragraphs (a), (b) and (d), a member bank may pay interest on any nonnegotiable time deposit of \$10,000 or more, with a maturity of 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 26 weeks issued on or immediately prior to the date of deposit. Rounding such rate to the next higher rate is not permitted. A member bank may not compound interest during the term of this deposit. A member bank may offer this category of time deposit to all depositors. However, a member bank may pay interest on any

² The ceiling rate on this category is the highest fixed ceiling rate that may be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank, or savings and loan association.

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† Destroy any previous Supplements.

nonnegotiable time deposit of \$10,000 or more with a maturity of 26 weeks which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(1) 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; or

(2) 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 to exceed the ceiling rate payable on the same category of deposit by any Federally insured savings and loan association or mutual savings bank.

(g) **Time deposits of less than \$100,000 with maturities of 2½ years or more.** Except as provided in paragraphs (a), (b), (d) and (e), a member bank may pay interest on any nonnegotiable time deposit with a maturity of 2½ years or more that is issued on or after the first day of each month at a rate not to exceed three quarters of one per cent below the average 2½ year yield for United States Treasury securities as determined and announced by the United States Department of the Treasury three business days prior to the first day of such month. The average 2½ year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. A member bank may offer this category of time deposit to all depositors. However, a member bank may pay interest on any nonnegotiable time deposit with a maturity of 2½ years or more which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(1) 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; or

(2) 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 to exceed the ceiling rate payable on the same category of deposit by any Federally insured savings and loan association or mutual savings bank.

(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:

<i>Original Maturity or Redemption Period</i>	<i>Maximum Per Cent</i>
2½ to 4 years	For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 2½ 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 2½ 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 2½ 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 2½ 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

*Original
Maturity or
Redemption
Period*

Maximum Per Cent
26-week money market time deposits
established pursuant to the provisions
of § 217.7(f) in effect at the time the
obligation was issued.

30 days or
more but
less than
2½ years
(No mini-
mum de-
nomination
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.