

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-8
January 18, 1983

REGULATION D

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS

REGULATION Q

INTEREST ON DEPOSITS

(Amendments)

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

The Board of Governors of the Federal Reserve System has amended its Regulation D (Reserve Requirements of Depository Institutions) and Regulation Q (Interest on Deposits) to incorporate the rules of the Depository Institutions Deregulation Committee. The amendments, effective January 5, 1983, are technical in nature and conform the Board's rules to those of the Committee.

Attached are copies of the Board's press release and the material as submitted for publication in the Federal Register. Questions regarding the material contained in this circular should be directed to this Bank's Legal Department, Extension 6171.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,



William H. Wallace
First Vice President

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.

FEDERAL RESERVE press release



For immediate release

December 29, 1982

The Federal Reserve Board today made public a number of technical revisions of its Regulations concerning reserves of depository institutions (D) and interest on deposits (Q) to conform the regulations to rules adopted by the Depository Institutions Deregulation Committee.

The Board's notice of its actions, including a list of rules of the DIDC to which it is conforming its regulations, is attached.

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Attachment

FEDERAL RESERVE SYSTEM

REGULATION D
REGULATION Q

[12 CFR Part 204]
[12 CFR Part 217]

(Docket No. R-0444)

RESERVE REQUIREMENTS OF DEPOSITORY INSTITUTIONS
INTEREST ON DEPOSITS

Technical Amendments

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Technical amendments.

SUMMARY: Pursuant to its authority under section 19 of the Federal Reserve Act, as amended, the Board has amended Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204) and Regulation Q--Interest on Deposits (12 CFR Part 217) to incorporate the rules of the Depository Institutions Deregulation Committee ("DIDC"), adopted pursuant to the Depository Institutions Deregulation Act of 1980 and section 327 of the Garn-St Germain Depository Institutions Act of 1982 (Pub. L. 97-320; 96 Stat. 1501). The amendments to Regulations D and Q are technical in nature and conform the Board's rules to those of the DIDC.

EFFECTIVE: January 5, 1983.

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

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221) transfers to the DIDC the authority conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b) upon the Board (and the similar authority of the Federal Deposit Insurance and the Federal Home Loan Bank Board, which are contained in other statutes) to establish rules concerning the payment of interest on deposit accounts.

The Board has amended its Regulation D and Regulation Q to bring them into conformity with actions taken by the DIDC. The following table presents the regulatory provisions that have been affected by the DIDC's actions:

<u>DIDC Rule</u>	<u>Regulatory Provision Amended</u>
1204.104--26 Week Money Market Time Deposits of Less Than \$100,000	217.7(f)
1204.108--Maximum Rates of Interest Payable by Depository Institutions on Deposits Subject to Negotiable Orders of Withdrawal	217.1(e) 217.7(c)
1204.120--90-Day Time Deposits of Less Than \$100,000	217.7(j)
1204.121--Seven to 31-Day Time Deposits of \$2,500 or More	204.2(b) (2), (c) (1) 217.4(d) (6) 217.4(f) 217.7(1)
1204.122--Money Market Deposit Account	217.1(e) (4) 217.5(c) 217.7(m)
1204.201--Establishment of Interest Rates on Deposits Not Subject to Interest Rate Ceilings	217.4(d) (5)

Because of the technical nature of the amendments conforming Regulations D and Q to actions of the DIDC, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to these actions is unnecessary and contrary to the public interest, and that good cause exists for making these actions effective January 5, 1983.

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign banking.

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. §§ 461, 371a, and 371b), the Board amends Regulation D (12 CFR Part 204) and Regulation Q (12 CFR Part 217), effective January 5, 1983, as follows:

1. Section 204.2 is amended by removing the phrase ", subject to a minimum balance of \$20,000," in paragraphs (b) (2) (iv) (A) and paragraph (c) (1) (iii).

2. Section 217.1(e) is amended by adding a new subparagraph (4) as follows:

SECTION 217.1 -- DEFINITIONS

* * * * *

(e) * * *

(4) Savings deposit also means a deposit issued pursuant to section 217.7(c)(2)(ii) or section 217.7(m) with respect to which the member bank reserves the right to require at least seven days' notice prior to withdrawal or transfer.

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3. Section 217.4 is amended by revising subparagraphs (d)(5) and (6) and paragraph (f) to read as follows:

SECTION 217.4 -- PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(d) * * *

(5) Any amendment of a time deposit contract that results in an increase in the rate of interest paid, except for time deposits on which no maximum interest rate limitation is prescribed, or any amendment of a time deposit contract that results in a reduction in the maturity of the deposit constitute payment of a time deposit before maturity.

(6) For purposes of computing the penalty required to be imposed under this paragraph, under a time deposit agreement that provides that subsequent deposits reset the maturity of the entire account, each deposit maintained in the account for at least a period equal to the original maturity of the deposit may be regarded as having matured individually and been redeposited at intervals equal to such period. Except as provided in section 217.7(1)(3), when a time deposit is payable only after notice, for funds on deposit for at least the notice period, the penalty for early withdrawal shall be imposed for at least the notice period.

* * * * *

(f) Loans upon security of time deposits. Except as provided in section 217.7(1)(2), a member bank may make a loan to the depositor upon the security of his time deposit, provided that the rate of interest on such loan shall be not less than 1 per cent per annum in excess of the rate of interest on the time deposit.

4. Section 217.5 is amended by revising subparagraph (c)(1) to read as follows:

SECTION 217.5 -- WITHDRAWAL OF SAVINGS DEPOSITS

* * * * *

(c) Manner of payment of savings deposits.

(1) Subject to the provisions of subparagraphs (2) and (3) of this paragraph and section 217.7(m), a member bank may permit withdrawals to be made from a savings deposit only through payment^{12/} to the depositor himself (but not to any other person whether or not acting for the depositor), except * * *

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12/ * * *

5. Section 217.7 is amended by removing the number "\$10,000" wherever it appears in paragraph (f) and the number "\$7,500" in paragraph (j) and substituting in lieu thereof the number "\$2,500".

6. Section 217.7 is amended by revising paragraphs (c) and (1) and by adding a new paragraph (m) to read as follows:

SECTION 217.7 -- MAXIMUM RATES OF INTEREST PAYABLE BY

MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

* * * * *

(c) Savings deposits. (1) Except as provided in paragraph (m), no member bank shall pay interest at a rate in excess of 5-1/4 percent on any savings deposit.

(2) A member bank may pay interest on any deposit or account subject to negotiable or transferable orders of withdrawal that is authorized pursuant to 12 U.S.C. § 1832(a)

(i) at a rate not to exceed 5-1/4 percent per annum,
or

(ii)(A) at any rate on a deposit account subject to the conditions of this paragraph with an initial balance of no less than \$2,500 and an average deposit balance (as computed in paragraph (c)(2)(ii)(B) of this section) of no less than \$2,500. However, for an account with an average balance of less than \$2,500, a member bank shall not pay interest in excess of the rate specified in paragraph (c)(2)(i) of this section for the entire computation period, as described in paragraph (c)(2)(ii)(B).

(B) The average balance in paragraph (c) (2) (ii) (A) may be calculated on the basis of the average daily balance over any computation period selected by a member bank which is not longer than one month. (For purposes of this paragraph (c) (2) (ii), a "month" shall mean, at a member bank's option, a calendar month or statement cycle. A statement cycle is normally 28 to 31 days, but may occasionally be as long as 35 days.)

(C) A member bank may not obligate itself to pay any interest rate or obligate itself to employ any method of calculation of an interest rate on this account for a period longer than one month. A member bank may not condition the interest rate paid upon the period of time the funds remain on deposit in this account, if that period is longer than one month.

(D) A member bank must reserve the right to require at least seven days' notice prior to withdrawal or transfer of any funds in this account. If such a requirement for a notice period is imposed by a member bank on one depositor, it must be applied equally to all other depositors holding an account subject to this paragraph (c) (2) (ii) at the same institution.

(E) A member bank is not permitted to lend funds to a depositor to meet the \$2,500 balance requirements of this paragraph (c) (2) (ii).

* * * * *

(1) Seven-to-31 day time deposits of \$2,500 or more. (1) Notwithstanding paragraphs (b) and (d), a member bank may pay interest at any rate as agreed to by the depositor on any nonnegotiable time deposit of \$2,500 or more, with a maturity or required notice period of not less than seven days nor more than 31 days. However, a member bank shall not pay interest in excess of the ceiling rate for regular savings deposits or accounts on any day the balance in a time deposit issued under this paragraph is less than \$2,500.

(2) (i) A member bank is not permitted

(A) to lend funds to a depositor upon the security of a time deposit that it has issued under this paragraph, or

(B) to lend funds to a depositor to meet or maintain the minimum denomination requirement of a time deposit issued under this paragraph.

(ii) The rate of interest and any other charges imposed on an overdraft credit arrangement to which withdrawals are paid or to which payments upon maturity or expiration of a required notice period are made from an account issued under this paragraph must be not

less than those imposed on such overdrafts for customers that do not possess an account issued under this paragraph at the same institution.

(3) (i) Where all or any part of a time deposit issued under this paragraph is paid before maturity or expiration of the required notice period, a depositor shall forfeit an amount at least equal to the greater of

(A) all interest earned on the amount withdrawn from the most recent of the date of deposit, date of maturity, or date on which notice was given, or

(B) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or required notice period.

(ii) Where all or any part of a time deposit issued under this paragraph is withdrawn within one business day after the maturity date of the deposit or the date of expiration of notice of withdrawal, no early withdrawal penalty is required to be applied on the amount withdrawn.

(4) Additional deposits to an account issued under this paragraph with a fixed maturity must be maintained in the account for a period at least equal to the original term of the account and may be regarded as having matured individually and having been redeposited at intervals equal to such period. For accounts issued under this paragraph that are subject to a notice period, additional deposits must remain in the account for a period equal to at least the notice period before such funds may be withdrawn without the imposition of an early withdrawal penalty.

(5) Deposits to any account issued under this paragraph may not be made by automatically transferring funds from another account of the depositor at the same institution where the transfer is initiated by the level of the balance in any account.

(6) (i) Withdrawals from any account issued under this paragraph may not be made

(A) by check, draft, or other third party payment instrument or instruction drawn or issued by the depositor, or

(B) by automatically transferring funds to another account of the depositor where the transfer is initiated by the level of balance in any account held by the depositor.

(ii) Payments at maturity or withdrawals may be paid by

(A) check or cash to the depositor,

(B) cash, draft, or electronic transfer issued by the institution to a third party, or

(C) transfer to any other account held by the depositor.

(iii) Notice of withdrawal from an account issued under this paragraph may be delivered by the depositor to the institution by telephone or other telecommunication, mail, messenger, standing order, or by appearance in person at the offices or premises of the institution.

(m) Money market deposit accounts. (1) Notwithstanding paragraph (c), a member bank may pay interest at any rate on a deposit account as described in this paragraph with an initial balance of no less than \$2,500 and an average deposit balance (as computed in paragraph (m)(2)) of no less than \$2,500. However, for an account with an average balance of less than \$2,500, a member bank shall not pay interest in excess of the ceiling rate specified for NOW accounts under paragraph (c)(2)(i) of this section for the entire computation period, as described in paragraph (m)(2) of this section.

(2) The average balance for this account may be calculated on the basis of the average daily balance over any computation period selected by the member bank that is not longer than one month. (For purposes of this paragraph, a "month" shall mean, at a member bank's option, either a calendar month or a statement cycle. A statement cycle is normally 28 to 31 days, but may occasionally be as long as 35 days.)

(3) A member bank is not required to establish a maturity on this account. However, it may do so, provided that the maturity is no longer than one month. Furthermore, a member bank may not obligate itself to pay any interest rate or obligate itself to employ any method of calculation of an interest rate on this account for a period longer than one month. A member bank may not condition the interest rate paid or the method of calculation of the interest rate paid upon the period of time funds remain on deposit in this account, if that period is longer than one month.

(4) A member bank must reserve the right to require at least seven days' notice prior to withdrawal or transfer of any funds in this account. If such a requirement for a notice period is imposed by a member bank on one depositor, it must be applied equally to all other depositors holding this account at the same institution.

(5) (i) A member bank is not required to limit the number of transfers of funds from this account to another account of the same depositor when made by mail, messenger, automated teller machine or in person. A member bank is not required to limit the number of withdrawals

(i.e., payments directly to the depositor) from this account when made by mail, telephone (via check mailed to the depositor), messenger, automated teller machine or in person. A member bank must restrict all preauthorized (including automatic) transfers of funds from this account to a maximum of six per month. Three of such transfers may be by check, draft or similar device drawn by the depositor to third parties. Telephone transfers to third parties or to another account of the same depositor are regarded as preauthorized transfers. There is no required minimum denomination for the transfers allowed by this paragraph.

(ii) In order to ensure that no more than the permitted number of transfers are made, a member bank must either:

(A) prevent transfers of funds in this account that are in excess of the limits established by this subparagraph, or

(B) adopt procedures to monitor those transfers on an ex post basis and contact customers who exceed the limits established by this paragraph on more than an occasional basis. For customers who continue to violate those limits after being contacted by the member bank, the bank will be required to either close the account or take away the account's transfer and draft capacities.

(iii) A member bank, at its option, may use on a consistent basis either the date on a check or the date it is paid in applying the limit on checks established by this subparagraph (5).

(iv) The rate of interest or other charges imposed on an overdraft credit arrangement on an account to which withdrawals from this account can be paid must be not less than those imposed on overdrafts for customers who do not maintain this account.

(6) A member bank may offer the account authorized by this paragraph to any depositor.

(7) A member bank is not required to impose restrictions on the number of additional deposits (including sweeps from other accounts) into this account.

(8) A member bank is not permitted to lend funds to a depositor to meet the \$2,500 balance requirement of this account.

By order of the Board of Governors, December 28, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]