

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-129

October 28, 1983

REGULATION Q

INTEREST ON DEPOSITS

(Technical 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 Q effective October 1, 1983 to incorporate rules relating to the payment of interest on deposits adopted by the Depository Institutions Deregulation Committee (DIDC). The DIDC's final rules were outlined in our Circular No. 83-106 dated September 7, 1983.

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 the 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

FEDERAL RESERVE press release



For immediate release

October 6, 1983

The Federal Reserve Board has amended its Regulation Q (Interest on Deposits) effective October 1, 1983 to incorporate rules relating to the payment of interest on deposits adopted by the Depository Institutions Deregulation Committee.

The DIDC was established by the Depository Institutions Deregulation Act of 1980, which transferred to the Committee the authority of the Board (and similar authority of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board) to prescribe interest rate ceilings and other rules relating to the payment of interest on deposits.

The technical amendments to Regulation Q effectuate DIDC actions abolishing ceiling interest rates on most time accounts. The resulting interest rate structure for commercial banks, including member banks, is:

<u>Account</u>	<u>Interest Rate Ceiling</u>	<u>Required Minimum Deposit</u>
All time deposits of more than 31 days	None	None
Money Market Deposit Account	None	\$2,500
Ceiling-free NOW Accounts	None	\$2,500
Time deposits of 7-31 days	None	\$2,500
Time deposits of 7-31 days ^{*/}	5-1/4%	\$0-\$2,499
Passbook Savings	5-1/4%	None
NOW Accounts	5-1/4%	\$0-\$2,499

^{*/} Member banks may continue to issue to governmental units time deposits of less than \$2,500 with maturities or required notice periods of 7 to 31 days, subject to the previous ceiling of eight percent in effect for such deposits.

The Board also revised its Regulation Q to incorporate DIDC actions effective October 1, 1983 that reduce penalties for early withdrawals from contracts entered into, renewed or extended on or after October 1, 1983 as follows:

--For time deposits of 7 to 31 days, a depositor must forfeit an amount at least equal to the greater of:

--All interest earned on the amount withdrawn during the term of the deposit, or

--All interest that could have been earned on the amount withdrawn in half of the maturity or notice period.

--For time deposits of between 32 days and one year, a depositor must forfeit an amount at least equal to:

--One month's interest earned, or that could have been earned, on the amount withdrawn at the simple interest rate being paid on the deposit, however long the funds withdrawn had been on deposit.

--For a time deposit of more than one year, a depositor must forfeit an amount at least equal to:

--Three months' interest earned, or that could have been earned, on the amount withdrawn at the simple interest rate being paid on the deposit, however long the funds withdrawn had been on deposit.

The Board's notice of its actions is attached.

FEDERAL RESERVE SYSTEM

REGULATION Q

[12 C.F.R. Part 217]

(Docket No. R-0483)

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 Q -- Interest on Deposits (12 CFR Part 217) to incorporate rules of the Depository Institutions Deregulation Committee ("DIDC"), adopted pursuant to the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221). The amendments to Regulation Q are technical in nature and conform the Board's rules to those of the DIDC.

EFFECTIVE: October 1, 1983.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), or Paul S. Pilecki, Senior Counsel (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 authorities of the Federal Deposit Insurance Corporation 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 Q to bring it 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>
1204.103--Penalty for Early Withdrawals	217.4(d)
1204.123--Payment of Interest on Time Deposits Issued on or after October 1, 1983	217.1(h), 217.7(a), (b), (d), (h)
1204.121--Seven to 31-Day Time Deposits	217.7(e)

<u>DIDC Rule Repealed</u>	<u>Regulatory Provision Amended</u>
1204.104--26 Week Money Market Time Deposits of Less Than \$100,000	217.6(i) 217.7(f)
1204.106--Time Deposits of Less Than \$100,000 with Maturities of 2-1/2 Years to Less Than 4 Years	217.7(g)
1204.112--Time Deposits of Less Than \$100,000	217.7(b)
1204.114--Phaseout of Finders Fees	217.147
1204.116--Tax-Exempt Savings Certificates	217.3(a) 217.7(i)
1204.118--Individual Retirement Accounts and Keogh (H.R. 10) Plan Deposits of Less Than \$100,000	217.7(e)
1204.119--Time Deposits of Less Than \$100,000 with Original Maturities of 3-1/2 Years or More	217.7(k)
1204.120--91-Day Time Deposits of Less Than \$100,000.	217.6(i) 217.7(j)

Because of the technical nature of amendments conforming Regulation 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 October 1, 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 Q (12 CFR Part 217), effective October 1, 1983, as follows:

1. Section 217.1 is amended in paragraph (b)(1)(ii) by removing "217.7(1)" and inserting "217.7(e)" in its place, in paragraph (e)(4) by removing "217.7(m)" and inserting "217.7(g)" in its place, and by revising paragraph (h) to read as follows:

SECTION 217.1--DEFINITIONS

* * * * *

(h) Obligations issued by the parent bank holding company of a member bank. (1) For purposes of this part, the "deposits" of a member bank also includes an obligation that is (i) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (ii) issued or guaranteed in whole or in part as to principal and 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. 1841-50), regardless of the use of proceeds; and (iii)(A) issued in a denomination of less than \$100,000 and with a stated maturity, notice period or redemption period of less than seven days or (B) issued in a denomination of less than \$2,500 and with a stated maturity, notice period, or redemption period of seven to thirty-one days.

(2) The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to Public Law 89-597.

* * * * *

2. Section 217.3 is amended in paragraph (f) by removing "217.7(1)" and inserting "217.7(e)" in its place and by revising the second sentence of paragraph (a) to read as follows:

SECTION 217.3--INTEREST ON TIME AND SAVINGS DEPOSITS

(a) * * * The effects of compounding of interest may be disregarded in ascertaining the rate of interest paid.
* * *

3. Section 217.4 is amended in paragraph (f) by removing "217.7(1)(2)" and inserting "217.7(e)(2)" in its place, and

paragraph (d) by revising subparagraph (1)(iii), by adding a new subparagraph (1)(iv), and by revising the last sentence of subparagraph (6) to read as follows:

SECTION 217.4--PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(d) * * *

(1) * * *

(iii) The following minimum early withdrawal penalty shall apply to time deposit contracts entered into, renewed, or extended between June 2, 1980, and September 30, 1983, and that have not been renewed or extended on or after October 1, 1983:

(A) * * *

(D) Notwithstanding subparagraphs (A) and (B), where a time deposit in an amount of \$2,500 to less than \$100,000, with an original maturity of 91 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount equal to at least all interest earned on the amount withdrawn.

(E) Notwithstanding subparagraph (A), where a nonnegotiable time deposit subject to an initial deposit of \$2,500 or more, with an original maturity or required notice period of seven to 31 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount equal to at least the greater of

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

(2) 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.

(iv) The following minimum early withdrawal penalty shall apply to time deposit contracts entered into, renewed, or extended on or after October 1, 1983:

(A) Where a time deposit with an original maturity or required notice period of seven to 31 days, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to the greater of (1) all interest earned

on the amount withdrawn from the most recent of the date of deposit, date of maturity, or date on which notice of withdrawal was given, or (2) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or the required notice period.

(B) Where a time deposit with an original maturity or required notice period of 32 days to one year, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to one month's interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

(C) 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, the depositor shall forfeit an amount at least equal to three months' interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple) interest rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

* * * * *

(6) * * * Except as provided in subparagraphs (1)(iii)(E) and (1)(iv)(A), 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.

* * * * *

4. Paragraph (c)(1) of section 217.5 is amended by removing "217.7(m)" and inserting "217.7(g)" in its place.

5. Section 217.6 is amended by removing paragraph (i).

6. Section 217.7 is amended by revising paragraphs (a), (b), (c), and (d); by removing paragraphs (e), (f), (g), (i), (j) and (k); by redesignating paragraph (m) as paragraph (g) and paragraph (h) as paragraph (f); redesignated paragraph (g) is amended in subparagraph (1) by removing "(m)(2)" in both places that it appears and by inserting "(g)(2)" in its place, and by redesignating paragraph (1) as paragraph (e) and revising it to read as follows:

SECTION 217.7--SUPPLEMENT: MAXIMUM RATES OF INTEREST
PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

* * * * *

(a) Time deposits of \$100,000 or more, or with original maturities or required notice periods of 32 days or more, or IBF time deposits. (1) There is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more, or with an original maturity or required notice period of 32 days or more, or on IBF time deposits issued under section 217.1(1).

(2) Except for IBF time deposits, a member bank may permit additional deposits to be made to any time deposit with an original maturity or required notice period of 32 days or more at any time prior to its maturity or expiration of notice period without extending the maturity or required notice period of the entire balance in the account.

(b) Time deposits with original maturities or required notice periods of seven to 31 days. No member bank shall pay interest on any time deposit of less than \$2,500 with an original maturity or required notice period of 31 days or less at a rate in excess of 5-1/4 percent.

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

* * * * *

(d) Governmental unit time deposits. Except as provided in paragraphs (a) and (e) and notwithstanding paragraph (b), 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 in excess of 8 percent.

(e) Seven- to 31-day time deposits of \$2,500 or more.

(1) Notwithstanding paragraph (d), a member bank may pay interest at any rate as agreed to by the depositor on any 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.

* * * * *

(3) 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.

* * * * *

5. Section 217.147 is revised to read as follows:

SECTION 217.147--PREMIUMS, FINDERS FEES, PREPAYMENT OF INTEREST
AND PAYMENT OF INTEREST IN MERCHANDISE

For regulatory provisions relating to premiums, finders fees, prepayment of interest and payment of interest in merchandise refer to 12 C.F.R. 1204.109, 1204.110 and 1204.111.

By order of the Board of Governors, October 3, 1983.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board