



FEDERAL RESERVE BANK  
OF DALLAS

ROBERT D. McTEER, JR.  
PRESIDENT  
AND CHIEF EXECUTIVE OFFICER

May 29, 1997

DALLAS, TEXAS  
75265-5906

**Notice 97-50**

**TO:** The Chief Executive Officer of each  
financial institution and others concerned  
in the Eleventh Federal Reserve District

**SUBJECT**

**Revised Interpretation of Regulation Q  
(Prohibition Against Payment of Interest on  
Demand Deposits)**

**DETAILS**

The Board of Governors of the Federal Reserve System has revised an interpretation to Regulation Q to provide exception to the current limitations on premiums given on demand deposit accounts. Section 11 of the Banking Act of 1933 prohibits the payment of interest on demand deposits, and Regulation Q implements this prohibition. As an exception to this rule, an interpretation permits premiums up to \$10 for deposits of less than \$5000 and up to \$20 for deposits of \$5000 or more not more than twice per year (Interpretation). The Interpretation also limits the timing of such premiums to the opening of a new account.

The Board has revised the Interpretation to provide an additional exception that permits premiums given without regard to the balance in a demand deposit account and the duration of the account balance. The Interpretation was effective May 15, 1997.

**ATTACHMENT**

A copy of the Board's notice as it appears on pages 26736-37, Vol. 62, No. 94, of the *Federal Register* dated May 15, 1997, is attached.

**MORE INFORMATION**

For more information, please contact Peggy Atcher at (214) 922-6202. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 922-5254.

Sincerely yours,

*Robert D. McTeer, Jr.*

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For additional copies, bankers and others are encouraged to use one of the following toll-free numbers in contacting the Federal Reserve Bank of Dallas: Dallas Office (800) 333-4460; El Paso Branch *Intrastate* (800) 592-1631, *Interstate* (800) 351-1012; Houston Branch *Intrastate* (800) 392-4162, *Interstate* (800) 221-0363; San Antonio Branch *Intrastate* (800) 292-5810.

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**FEDERAL RESERVE SYSTEM**

**12 CFR Part 217**

[Regulation Q; Docket No. R-0971]

**Prohibition Against Payment of Interest on Demand Deposits**

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Interpretation.

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**SUMMARY:** The Board has amended an interpretation to provide an exception to the current limitations on premiums given on demand deposit accounts. Section 11 of the Banking Act of 1933 prohibits the payment of interest on demand deposits, and Regulation Q implements this prohibition. As an exception to this rule, an interpretation permits premiums up to \$10 for deposits of less than \$5000 and up to \$20 for deposits of \$5000 or more not more than twice per year (Interpretation). The Interpretation also limits the timing of such premiums to the opening of a new account or an addition to an existing account.

The Board has amended the Interpretation to provide an additional exception that permits premiums given without regard to the balance in a demand deposit account and the duration of the account balance, since from an economic point of view such premiums do not constitute interest on the account. Accordingly, depository institutions are permitted to give such premiums, without regard to the amount

of the premium, provided that the premiums are not related to or dependent on the balance in the account and the duration of the account balance, without violating Regulation Q.

**EFFECTIVE DATE:** May 15, 1997.

**FOR FURTHER INFORMATION CONTACT:** Rick Heyke, Staff Attorney, Legal Division, Board of Governors of the Federal Reserve System (202/452-3688). For the hearing impaired only, Telecommunications Device for the Deaf (TDD), Diane Jenkins (202/452-3544).

**SUPPLEMENTARY INFORMATION:**

**Background**

Section 11 of the Banking Act of 1933 prohibits the payment of interest on demand deposits (12 U.S.C. 371a). Regulation Q implements this prohibition (12 CFR 217.3). As an exception to this rule, the Interpretation permits premiums up to \$10 for deposits of less than \$5000 and up to \$20 for deposits of \$5000 or more not more than twice per year (12 CFR 217.101). The Interpretation limits the timing of the premiums to the opening of a new account or an addition to an existing account. The Board has revised the Interpretation to permit in addition premiums, without regard to the amount of the premium, provided that the premiums are not related to or dependent on the balance in an account and the duration of the account balance.

The premium limitations in Regulation Q originally applied to all types of deposits and were established in part to prevent evasion of interest rate ceilings at the retail level prior to the deregulation of interest rates on time and savings deposits (including NOW accounts) pursuant to the Depository Institutions Deregulation and Monetary Control Act of 1980. The premium limitations were agreed upon by the Depository Institutions Deregulation Committee ("DIDC") and supported by all the depository institution regulators in an effort to preserve a relatively level playing field during the period of deposit interest rate deregulation, which ended in 1986. Since then, banks have been permitted to offer premiums on interest bearing accounts, including NOW, time, and savings accounts, without regard to the premium limitations, and the limitations have only applied to demand deposit accounts.

Because the existing exemption is restricted to the opening of or an addition to<sup>1</sup> a deposit account, it has constrained the ability of depository

institutions to offer incentives to use their products, including encouraging the use of new services such as ATM or debit cards. On June 23, 1981, the Executive Secretary of the DIDC advised one bank that wanted to offer promotions to deposit customers who signed up for an ATM card and another bank that wanted to offer promotions to deposit customers who used an ATM card more than three times per month, that the promotions would constitute impermissible premiums because they would not coincide with opening or adding to an account. In effect, the Interpretation, coupled with these rulings, holds that premiums from use of a debit card, which reduces the amount on deposit, constitute interest on the deposit.

The Board believes that in cases where a premium is not related to or dependent on the balance in a demand deposit account and the duration of that balance, the premium generally should not be viewed as interest.

In light of all the foregoing, the Board is amending its Interpretation effective on date of publication in the **Federal Register** to except from the Regulation's restriction any premiums that are not related to the balance in an account and the duration of the account balance.

**Regulatory Flexibility Act**

The Regulatory Flexibility Act (5 U.S.C. 601-612) requires an agency to publish a regulatory flexibility analysis for any final rule for which the agency was required to publish a general notice of proposed rulemaking. Under 12 U.S.C. 553(b), a general notice of proposed rulemaking is not required for interpretative rules. Accordingly, no regulatory flexibility analysis is required in this case.

The amendment of the Interpretation will reduce the regulatory burden imposed by the Board's Regulation Q on all depository institutions, large and small. Therefore, the Board believes that the amendment will not have a significant adverse economic impact on a substantial number of small entities.

Under 12 U.S.C. 553(d), a 30 day period between publication date and effective date is not required for interpretative rules. Accordingly, this interpretation is effective on date of publication in the **Federal Register**.

**Paperwork Reduction Act**

In accordance with the Paperwork Reduction Act notice of 1995 (44 U.S.C. Ch. 3506; 5 CFR Part 1320, Appendix A.1), the Board has reviewed the rule under authority delegated to the Board by the Office of Management and Budget. No collections of information

pursuant to the Paperwork Reduction Act are contained in the rule.

**List of Subjects in 12 CFR Part 217**

Banks, Banking, Federal Reserve System.

**Authority and Issuance**

For the reasons set forth in the preamble, the Board amends part 217 of chapter II of title 12 as set forth below:

**PART 217—PROHIBITION AGAINST THE PAYMENT OF INTEREST ON DEMAND DEPOSITS (REGULATION Q)**

1. The authority citation for part 217 continues to read as follows:

**Authority:** 12 U.S.C. 248, 371a, 461, 505, 1818, and 3105.

**§ 217.101 [Amended]**

2. In § 217.101, paragraph (a)(1) is amended by removing "or renewal of," and a new paragraph (b) is added after paragraph (a) concluding text to read as follows:

**§ 217.101 Premiums on deposits.**

\* \* \* \* \*

(b) Notwithstanding paragraph (a) of this section, any premium that is not, directly or indirectly, related to or dependent on the balance in a demand deposit account and the duration of the account balance shall not be considered the payment of interest on a demand deposit account and shall not be subject to the limitations in paragraph (a) of this section.

By order of the Board of Governors of the Federal Reserve System, May 9, 1997.

**William W. Wiles,**  
*Secretary of the Board.*

[FR Doc. 97-12706 Filed 5-14-97; 8:45 am]

**BILLING CODE 6210-01-P**

<sup>1</sup> Premiums are also permitted on renewing a deposit, but this has been moot since time deposits were deregulated, and is eliminated in the revision.