

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 3871]
June 24, 1952

PAYMENT OF INTEREST ON DEPOSITS

Amendment to Regulation Q
Revision of Operating Circular No. 15

*To all Member Banks in the
Second Federal Reserve District:*

The Board of Governors of the Federal Reserve System has amended its Regulation Q, effective July 1, 1952, with respect to the allowance of days of grace in the computation by member banks of interest on savings deposits. A copy of the amendment is transmitted herewith. The Federal Deposit Insurance Corporation has adopted an identical amendment, also effective July 1, 1952, to its regulations relating to the payment by insured nonmember banks of interest on deposits.

Our Operating Circular No. 15, entitled "Payment of Interest on Time and Savings Deposits," has been revised to reflect changes made by General Regulation No. 3 (Amendment), adopted by the Banking Board of the State of New York, effective February 6, 1952, and also to reflect changes made by the above-mentioned amendment to Regulation Q. A copy of the revised circular is also enclosed.

Additional copies of this circular and of the enclosures will be furnished upon request.

ALLAN SPROUL,
President.

PAYMENT OF INTEREST ON DEPOSITS
AMENDMENT TO REGULATION Q

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Regulation Q is hereby amended, effective July 1, 1952, by changing subsection (d) of section 3 thereof to read as follows:

(d) **Grace periods in computing interest on savings deposits.**— A member bank may pay interest on a savings deposit received during its first 10 business days of any calendar month commencing a regular quarterly or semiannual interest period and during its first 5 business days of any other calendar month at the applicable maximum rate prescribed pursuant to subsection (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this regulation, whichever shall first occur; and a member bank may pay interest on a savings deposit withdrawn during its last 3 business days of any calendar month ending a regular quarterly or semiannual interest period at the applicable maximum rate prescribed pursuant to subsection (a) calculated to the end of such calendar month.

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**FEDERAL RESERVE BANK
OF NEW YORK**

[Operating Circular No. 15]
[Revised July 1, 1952]

**PAYMENT OF INTEREST ON TIME AND
SAVINGS DEPOSITS**

*To all Member Banks in the Second
Federal Reserve District:*

This circular contains information regarding the maximum rates of interest which member banks in the Second Federal Reserve District may lawfully pay on time and savings deposits.

Statutory provisions

1. Section 19 of the Federal Reserve Act (hereinafter referred to as the "Act") provides generally, among other things, that no member bank shall pay any interest on any deposit payable on demand, and that the Board of Governors of the Federal Reserve System shall, by regulation, limit the rate of interest which may be paid by member banks on time and savings deposits;¹ and authorizes the Board of Governors to define certain terms used in the Act, to determine what shall be deemed a payment of interest, and to prescribe rules and regulations to effectuate the purposes of the section.

Regulation Q

2. Under authority of the provisions of Section 19 of the Act, the Board of Governors of the Federal Reserve System has issued Regulation Q, entitled "Payment of Interest on Deposits." Reference is made to the Regulation for the definitions of terms used in the Act and for details of the prohibition against the payment of interest on deposits payable on demand and the limitations upon the payment of interest on time and savings deposits.

Supplement to Regulation Q

3. The latest Supplement to Regulation Q, effective January 1, 1936, prescribes the maximum rates of interest which member banks may pay on time and savings deposits.¹ We will promptly notify our member banks of any change in these rates.

¹ The foregoing provisions are not applicable to any deposit that is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia.

Member banks limited to maximum rate for State banks

4. Section 24 of the Act provides that the rate of interest which a national banking association may pay upon time deposits or upon savings deposits shall not exceed the maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such association is located.

5. Section 3(c) of Regulation Q provides that the rate of interest paid by a member bank on a time deposit or savings deposit shall not exceed either the applicable maximum rate prescribed in the Supplement to Regulation Q, or the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

Grace periods in computing interest on savings deposits

6. Effective July 1, 1952, the Board of Governors of the Federal Reserve System has amended Section 3(d) of Regulation Q. Under this amendment, a member bank may, in paying interest, allow a grace period of 10 business days at the beginning of any calendar month commencing a regular quarterly or semiannual interest period, a grace period of 5 business days at the beginning of any other calendar month, and a grace period of 3 business days at the end of any calendar month ending a quarterly or semiannual interest period.

Banks located in the State of New York

7. The Banking Board of the State of New York adopted General Regulation No. 3 (Amendment), effective February 6, 1952. Section 2 of the General Regulation provides that the maximum rate of interest which banks and trust companies organized under the laws of the State of New York may pay on any special interest or thrift deposit² account is 2½ per cent per annum, compounded quarterly, on that part of any such deposit account not in excess of \$10,000, and 1½ per cent per annum, compounded quarterly, on that part of any such deposit account in excess of \$10,000. Section 4 of the General Regulation provides that those banks and trust companies may pay interest on any special interest or thrift deposit from the first day of the month in which such deposit is made, at the respective maximum interest rates specified in the General Regulation, if such deposit is received not later than (1) the tenth business day³ of any month commencing a regular quarterly or semiannual interest period; or (2) the fifth busi-

² The definition of the term "special interest or thrift deposit" contained in General Regulation No. 3 (Amendment) is identical with the definition of the term "savings deposit" contained in Regulation Q. The use of the word "saving" or "savings" is restricted by statute in the State of New York.

³ The term "business day" as used in the General Regulation means any day on which the banks or trust companies are open for business.

ness day of any one month in a semiannual interest period other than the month commencing such period; or (3) the third business day of any other month. Section 4 also provides that banks and trust companies may credit interest on special interest or thrift deposits withdrawn upon one of the last three business days of any regular quarterly or semiannual interest period at the respective maximum interest rates specified in the General Regulation as if they had remained on deposit to the end of such interest period. For time deposits other than special interest or thrift deposits, the General Regulation now provides for a scale of maximum interest rates graduated according to the term of the deposit, similar to that prescribed by the Board of Governors of the Federal Reserve System in the Supplement to Regulation Q, effective January 1, 1936. Extracts from the General Regulation are reprinted at the end of this circular.

8. The Board of Governors of the Federal Reserve System has expressed its opinion that, in view of the provisions of General Regulation No. 3 (Amendment) of the State Banking Board and the provisions of Section 24 of the Federal Reserve Act and of Regulation Q, national banks, as well as State member banks, in the State of New York are prohibited by the General Regulation from paying interest on that part of any savings deposit in excess of \$10,000 at a rate higher than 1½ per cent per annum, compounded quarterly; all other maximum rates prescribed by the General Regulation with respect to time⁴ and savings deposits are identical with those prescribed by Regulation Q.

9. The above-described provisions of Section 3(d) of Regulation Q, as amended effective July 1, 1952, concerning the allowance of grace periods in computing interest on savings deposits, are similar to, but in some respects broader than, the provisions relative to the allowance of days of grace on special interest or thrift deposits in Section 4 of the General Regulation. To the extent that the General Regulation is more restrictive in this regard than Regulation Q, no national or other member bank in the State of New York may pay interest on a savings deposit in an amount greater than would be payable at the maximum rate prescribed by the General Regulation with an allowance for days of grace as authorized in Section 4 of the General Regulation.

Revision of this circular

10. The right is reserved to withdraw, add to, or amend at any time, any of the provisions of this circular.

Effect of this circular on previous circular

11. This circular supersedes our Operating Circular No. 15, dated December 8, 1947.

ALLAN SPROUL,
President.

⁴ As defined in Section 1 of Regulation Q, "time deposits" means "time certificates of deposit" and "time deposits, open account."

**Extracts from General Regulation No. 3 (Amendment) of the
Banking Board of the State of New York, as adopted on
February 6, 1952**

*Maximum rates
on special
interest,
thrift, time
and savings
deposits*

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2. (a) Effective immediately, no bank, trust company, private banker or industrial bank shall, directly or indirectly, by any device whatsoever, pay any interest on any special interest or thrift deposit account, at a rate in excess of the following:

(1) On that part of any deposit account not in excess of \$10,000, two and one-half per centum per annum, compounded quarterly;

(2) On that part of any deposit account in excess of \$10,000, one and one-half per centum per annum, compounded quarterly.

(b) Effective immediately, no bank, trust company, private banker or industrial bank shall pay any interest on any time deposit, other than a special interest or thrift deposit, at a rate in excess of the following:

(1) On any time deposit, having a maturity date six months or more after the date of deposit or payable upon written notice of six months or more, or on any Postal Savings deposit which constitutes a time deposit, two and one-half per centum per annum, compounded quarterly;

(2) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than six months and not less than ninety days after the date of deposit or payable upon written notice of less than six months and not less than ninety days, two per centum per annum, compounded quarterly.

(3) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than ninety days after the date of deposit or payable upon written notice of less than ninety days, one per centum per annum, compounded quarterly.

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(d) Effective immediately, no savings bank shall pay any dividend accruing on or after January 1, 1952, on any savings deposit at a rate in excess of two and one-half per centum per annum, compounded quarterly, on any deposit account not in excess of \$10,000.

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4. (a) A bank, trust company, private banker or industrial bank may pay interest from the first day of the month in which such deposits were made, at the respective maximum interest rates specified herein, on any special interest or thrift deposit received not later than

*Grace
periods*

(1) the tenth business day of any month commencing a regular quarterly or semi-annual interest period; or

(2) the fifth business day of any one month in a semi-annual interest period other than the month commencing such period; or

(3) the third business day of any other month.

(b) A bank, trust company, private banker or industrial bank may credit interest on special interest or thrift deposits withdrawn upon one of the last three business days of any regular quarterly or semi-annual interest period at the respective maximum rates specified herein as if they had remained on deposit to the end of such interest period.

As used herein, the term "business day" shall mean any day on which the bank, trust company, private banker or industrial bank is open for business.

5. (a) The term "deposit account", as used herein, shall mean and include, except as set forth in subdivisions (b) and (c) hereof, the aggregate liability of the bank, trust company, private banker, industrial bank or savings bank for special interest or thrift or savings deposits or any similar credit balances payable to a depositor, including the pro rata share of all amounts, in joint or several form, credited to such depositor and others. For the purpose of computing such aggregate liability, interest or dividends credited to any such deposit account or similar credit balance, which have not been withdrawn, shall be excluded.

*Deposit
accounts*

(b) Deposits credited to a depositor as trustee under a voluntary trust shall not be included in computing the aggregate deposit account payable to such depositor, except in the event that the aggregate of all such voluntary trust accounts is in excess of \$10,000; and in such event the excess shall be included in computing such depositor's aggregate deposit account.

(c) Deposit credited to any depositor as executor, administrator, trustee (except as specified in subdivision (b) hereof), committee, guardian or other fiduciary capacity shall not be included in the computation of such depositor's deposit account. For the purposes of this regulation, each such fiduciary deposit account shall be separately computed.

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