FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 5117
December 1, 1961]

INTEREST ON TIME AND SAVINGS DEPOSITS

New Supplement, Effective January 1, 1962, to Regulation Q

*To All Member Banks of the
Second Federal Reserve District:*

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today authorized an increase in the maximum permissible rates of interest payable by member banks on savings deposits and on time deposits and certificates, effective January 1, 1962.

After that date, member banks will be permitted to pay up to 3½ per cent on all savings deposits and on time deposits and certificates of at least six months' term, and up to 4 per cent on like deposits left in the banks for one year or more. The present maximum rate is 3 per cent.

The 6,100 member banks of the Federal Reserve System have approximately 50 million savings and time deposit accounts, amounting at present to some $67 billion. More than three-fourths of the total amount is in savings accounts owned by individuals. The time deposits and certificates are owned by business concerns and other private or public institutions as well as by individuals.

For some time a number of commercial banks have contended that the 3 per cent maximum rate has restricted them in their efforts to compete for savings and time deposits. One effect of the action will be to increase freedom of competition and to enable each member bank to determine the rates of interest which it will pay in the light of the economic conditions prevailing in its area, the type of competition it must meet, and its ability to pay.

Another effect of immediate significance will be to enable member banks so desiring to compete more vigorously to retain foreign deposits that might otherwise move abroad in search of higher returns and thereby intensify an outflow of capital or gold to other countries. Thus, today's action is in line with previous steps taken to moderate pressures on this country's international balance of payments.

A further, longer-range effect should be to give member banks all the scope that may be needed for a considerable period ahead to provide an added incentive for the savings that will be required in financing the future economic growth that will be essential to expanding job opportunities for a growing population.

How many banks may increase their rates after next January 1, or when and to what levels they may do so, is conjectural. Experience suggests that any moves toward higher rates are likely to be gradual. Almost five years have passed since the maximum permissible rate was increased from 2½ per cent to the present 3 per cent. Many banks, however, still pay less than 3 per cent.

Responsibility for setting maximum permissible rates on member bank payments of interest on savings and time deposits was vested in the Board of Governors by Congress in 1933. The maximum permissible rate was set originally in that year at 3 per cent, reduced in 1935 to 2½ per cent, and kept at that level until restored to 3 per cent on January 1, 1957.

The changes announced today were effected by a revision of the Supplement to the Board's Regulation Q. A copy of the revised Supplement is attached. The action was taken a month in advance of the effective date because many banks, by tradition, use January 1 as the date from which interest on savings deposits is computed.

The Board action today did not change the maximum permissible rates for time deposits and certificates of less than six months' duration. For these, the maximum will continue to be 2½ per cent for time deposits and certificates of 90 days to six months, and 1 per cent for time deposits and certificates of less than 90 days.

The Federal Reserve action was taken after consultation with the Federal Deposit Insurance Corporation, which regulates the rate of interest paid by insured banks which are not members of the Federal Reserve System.

Enclosed is a copy of the Supplement, effective January 1, 1962, to Regulation Q. Additional copies of the supplement and of this circular will be furnished upon request.

Alfred Hayes,
President.

NOTICE

Enclosed is a corrected copy of the Supplement to Regulation Q, effective January 1, 1962. The copy of such Supplement enclosed with our Circular No. 5117, dated December 1, 1961, contained a typographical error; paragraph (a)(3) thereof omitted the word "not" immediately preceding the words "less than 12 months." Please destroy the defective copy.

FEDERAL RESERVE BANK OF NEW YORK

December 4, 1961.

Corrected Copy

SUPPLEMENT TO REGULATION Q

SECTION 217.6

MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS DEPOSITS BY MEMBER BANKS

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective January 1, 1962

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates[1] of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(a) **Maximum rate of 4 per cent.**—No member bank shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed:

(1) On that portion of any savings deposit that has remained on deposit for not less than 12 months,

(2) On any time deposit having a maturity date 12 months or more after the date of deposit or payable upon written notice of 12 months or more,

(3) On that portion of any Postal Savings deposit which constitutes a time deposit that has remained on deposit for not less than 12 months.

(b) **Maximum rate of $3\frac{1}{2}$ per cent.**—No member bank shall pay interest accruing at a rate in excess of $3\frac{1}{2}$ per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed:

(1) On any savings deposit, except as otherwise provided in (a)(1) above,

(2) On any time deposit having a maturity date less than 12 months and not less than 6 months after the date of deposit or

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[1] The maximum 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 of the States of the United States and the District of Columbia.

[2] This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.

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payable upon written notice of less than 12 months and not less than 6 months,

(3) On any Postal Savings deposit which constitutes a time deposit, except as otherwise provided in (a)(3) above.

(c) **Maximum rate of 2½ per cent.**—No member bank shall pay interest accruing at a rate in excess of 2½ per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed:

(1) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 6 months and not less than 90 days after the date of deposit or payable upon written notice of less than 6 months and not less than 90 days.

(d) **Maximum rate of 1 per cent.**—No member bank shall pay interest accruing at a rate in excess of 1 per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed:

(1) On any time deposit (except Postal Savings deposits which constitute time deposits) having a maturity date less than 90 days after the date of deposit or payable upon written notice of less than 90 days.

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[2] This limitation is not to be interpreted as preventing the compounding of interest at other than quarterly intervals, provided that the aggregate amount of such interest so compounded does not exceed the aggregate amount of interest at the rate above prescribed when compounded quarterly.