

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 5120]
December 8, 1961]

Interpretations of Supplement, Effective January 1, 1962, to Regulation Q

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

To clarify questions that have been raised with respect to maximum permissible rates of interest payable on time and savings deposits under the revised Supplement to Regulation Q, which become effective on January 1, 1962, the Board of Governors of the Federal Reserve System has issued the following comments to the Federal Reserve Banks:

Although the maximum rate on savings deposits will depend upon the length of time that the deposit has remained with the bank, the maximum rate on time deposits (certificates and time open accounts) will continue, as heretofore, to be dependent upon the stated maturity of the certificate or the prescribed period of notice of withdrawal and not upon the length of time the deposit has remained in the bank. For example, the maximum permissible rate on a 6-months' certificate of deposit would be 3½ per cent even though, because of renewals, the deposit remains in the bank 12 months or more.

Time certificates issued prior to January 1, 1962 may be amended, if desired, to bear interest up to the applicable increased maximum rates for the period subsequent to that date. Thus, a certificate dated July 1, 1961, maturing July 1, 1962, may be amended to bear interest up to 4 per cent for the period subsequent to January 1, 1962.

Any savings deposit that has remained on deposit continuously for 12 months or more prior to January 1, 1962, may bear interest at any rate up to 4 per cent for the period following that date but not for any period prior thereto. After any savings deposit, whether made before or after January 1, 1962, has remained continuously on deposit for 12 months, interest may be paid at any rate up to 4 per cent for the period subsequent to January 1, 1962. Where interest is paid at a rate of 3½ per cent or less for a period subsequent to January 1, 1962, when the deposit has been in the bank for less than 12 months, but where the deposit continues in the bank for 12 months, the bank may then pay such additional interest for the period subsequent to January 1, 1962 as will not cause the rate for such period to exceed 4 per cent. For example, if \$1,000 is deposited March 1, 1962, and the bank thereafter credits 3½ per cent interest, and if that amount remains on deposit until March 1, 1963, the bank may then credit an additional one-half of 1 per cent on that amount from March 1, 1962, so that interest for the 12 months would be at the rate of 4 per cent.

In determining the maximum permissible rate on savings deposits, the portion of any such deposit that has "remained on deposit for not less than 12 months" is the minimum balance in the account at any time during such period.

It should be emphasized that the above interpretations relate to the maximum permissible rates of interest and do not preclude member banks from paying less than such maximum interest by reason of lower rates or computation procedures.

Notwithstanding the Board's action, it should be borne in mind that State member banks, as well as national banks under section 24 of the Federal Reserve Act, may not pay interest on time or savings deposits at any rate in excess of that authorized by or pursuant to State law for State banks or trust companies.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.