FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5171
April 2, 1962]

PAYMENT OF INTEREST ON TIME AND SAVINGS DEPOSITS
Revision of Operating Circular No. 15

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

Operating Circular No. 15, entitled "Payment of Interest on Time and Savings Deposits," has been revised to reflect the provisions of the Supplement, effective January 1, 1962, to Regulation Q of the Board of Governors of the Federal Reserve System, and the Amendment, also effective January 1, 1962, made by the Banking Board of the State of New York to its General Regulation No. 3, on the maximum rates of interest that member banks in this District may pay on time and savings deposits.

The revised operating circular contains the following changes:

Paragraph 3 contains an extract from an interpretation by the Board of Governors of the Supplement to Regulation Q, relating to savings deposits on deposit for 12 months or more.

Paragraph 6, relating to banks located in the State of New York, states that there is a difference between Regulation Q and General Regulation No. 3 as to maximum rates of interest that may be paid by commercial banks on certain savings deposits. Paragraph 6 also indicates the maximum rates that may be paid by savings banks under General Regulation No. 3.

Paragraphs 7, 8, and 9, which are new, set forth the maximum rates of interest that may be paid on savings deposits by State member banks in New York State, national banks in New York State, and member banks in Connecticut and New Jersey. Paragraph 8 indicates that the Board of Governors has expressed the view that a national bank in New York State may pay interest for the first year of deposit on a savings deposit that remains continuously on deposit for one year at the same maximum rate that a mutual savings bank organized under the laws of New York State may pay for the first year of deposit. The following table summarizes the maximum rates of interest payable on savings deposits for periods beginning on and after January 1, 1962 by member banks in the Second District:

	For first year in which funds are continuously on deposit	*After first year in which funds are continuously on deposit*
New York State		
State member banks	3½%	4%
National banks	3¾% (by crediting interest of up to 3½% during the year and additional interest at end of year on amount that has remained on deposit during entire year, to bring total to maximum of 3¾%)	4%
Member banks in Connecticut and New Jersey. .	4% (by crediting interest of up to 3½% during the year and additional interest at end of year on amount that has remained on deposit during entire year, to bring total to maximum of 4%)	4%

A copy of the revised operating circular is enclosed. Additional copies will be furnished upon request.

Alfred Hayes,
President.

FEDERAL RESERVE BANK
OF NEW YORK

[Operating Circular No. 15
Revised April 2, 1962]

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 that 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 that 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 Supplement to Regulation Q, effective January 1, 1962, prescribes the maximum rates of interest that member banks may pay on time and savings deposits.[1] We will promptly notify our member banks of any change in these rates. In an interpretation of the Supplement to Regulation Q, the Board of Governors stated the following with respect to savings deposits that have remained continuously on deposit for 12 months or more:

> 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

[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.

until March 1, 1963, the bank may then credit an additional ½ 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.[2]

Member banks limited to maximum rate for State banks

4. Section 24 of the Act provides that the rate of interest that 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 217.3(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.

Banks located in the State of New York

6. General Regulation No. 3 (Amendment) of the Banking Board of the State of New York, effective January 1, 1962, provides, among other things, for a scale of maximum rates of interest that banks and trust companies organized under the laws of the State of New York may pay on time and savings deposits. The maximum rates of interest prescribed by General Regulation No. 3 for time and savings deposits in commercial banks and trust companies organized under the laws of the State of New York are, with one exception, identical with those prescribed by the Board of Governors of the Federal Reserve System in the Supplement to its Regulation Q. The exception is the maximum rate of interest that such banks may pay on that part of a savings deposit that remains continuously on deposit for a 12-month period. As indicated in paragraph 3 of this circular, the maximum rate as of January 1, 1962 under Regulation Q is, in effect, 4 per cent per annum for such 12-month period and 4 per cent per annum after such 12-month period. Under General Regulation No. 3, however, the maximum rate as of January 1, 1962 is *3½ per cent per annum for such 12-month period* and 4 per cent per annum after such 12-month period. General Regulation No. 3 also provides, in effect, that as of January 1, 1962, a savings bank may pay dividends on deposits at the rate of 3¾ per cent per annum for the first year that the deposits remain in the bank. Two extracts from General Regulation No. 3 are printed at the end of this circular.

State member banks

7. Under General Regulation No. 3, State member banks in New York State may pay interest on a savings deposit at a rate not in excess of 3½ per cent per annum, compounded quarterly, for the first year a deposit remains in the bank and at a rate not in excess of 4 per cent per annum, compounded quarterly, for any period thereafter.

National banks

8. The Board of Governors has expressed the view that for the purposes of Section 24 of the Federal Reserve Act and Section 217.3(c)

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[2] Published in *Federal Reserve Bulletin,* December 1961, page 1404, and in this Bank's Circular No. 5120.

of Regulation Q, a mutual savings bank organized under the laws of New York State is a State bank; and that, accordingly, a national bank in New York State may pay interest at an effective rate not in excess of 3¾ per cent per annum, compounded quarterly, for any period after January 1, 1962 on that part of a savings deposit that remains continuously on deposit for 12 months (including months in 1961) by currently crediting interest at a rate of 3½ per cent or less per annum, compounded quarterly, and at the end of the 12-month period, crediting additional interest to bring the effective rate for the part of such 12-month period following January 1, 1962 to 3¾ per cent per annum, compounded quarterly. Thereafter, the national bank may pay interest on such deposit at a rate not in excess of 4 per cent per annum, compounded quarterly.

Banks located in Connecticut and New Jersey

9. The States of Connecticut and New Jersey have not established maximum rates of interest on time and savings deposits payable by commercial banks and trust companies organized under the laws of those States. However, member banks in such States are subject to Regulation Q.

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, Revised January 1, 1957.

ALFRED HAYES,
President.

Extracts from General Regulation No. 3 of the Banking Board of the State of New York, as Amended January 10, 1962

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Payment of interest on savings and time deposits

2. (a) Effective January 1, 1962, no bank, trust company, private banker, industrial bank, investment company, or New York branch of any foreign banking corporation shall pay interest accruing at a rate in excess of 4 per cent per annum, compounded quarterly, 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; provided, however, that no interest on any savings deposit or portion thereof shall be paid at a rate in excess of that permitted in subparagraph (b) of this paragraph, except for a period following expiration of the 12 months specified in this subparagraph (a)(1),

(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) Effective January 1, 1962, no bank, trust company, private banker, industrial bank, investment company or New York branch of any foreign banking corporation shall pay interest accruing at a rate in excess of 3½ per cent per annum, compounded quarterly, regardless of the basis upon which such interest may be computed:

(1) On any savings deposit, except as otherwise provided in 2(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 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 2(a)(3) above.

(c) Effective January 1, 1962, no bank, trust company, private banker, industrial bank, investment company or New York branch of any foreign banking corporation shall pay interest accruing at a rate in excess of 2½ per cent per annum, compounded quarterly, 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) Effective January 1, 1962, no bank, trust company, private banker, industrial bank, investment company or New York branch of any foreign banking corporation shall pay interest accruing at a rate in excess of 1 per cent per annum, compounded quarterly, 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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Payment of dividends on deposits with savings banks

5. (a) No savings bank shall pay, directly or indirectly, except as provided in subparagraph (b) of this paragraph 5, any dividend accruing for any quarter or other period commencing on or after January 1, 1962, upon any deposit, at a rate in excess of three and three-quarters of one per centum per annum, compounded quarterly.

(b) For the quarter commencing January 1, 1962, and for any subsequent quarter, a savings bank may pay a special dividend at a rate fixed by vote of a majority of all the trustees duly entered upon their minutes, in accordance with the provisions of Sections 244 and 245 of the Banking Law of the State of New York, and compounded quarterly, on such funds as have remained on deposit with the paying savings bank for a period of not less than (i) four consecutive quarters, or (ii) one year from date of deposit; provided, however, that no such special dividend may be paid upon any deposit or portion thereof except for a dividend period following the expiration of four consecutive quarters during which such funds have remained on deposit, or for that portion of a dividend period following expiration of a one-year period from date of deposit. For purposes of this subparagraph (b) funds shall be deemed to be on deposit from the date dividends begin to accrue thereon.

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