

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5358]
July 16, 1963

Increases in Discount Rates of this Bank
and Six Other Federal Reserve Banks

Increases in Maximum Interest Rates on Time Deposits
Under Regulation Q

*To All Member Banks, and Others Concerned,
in 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 Federal Reserve System acted today on two fronts to aid in the United States' efforts to combat its international balance of payments problem.

The Board of Governors approved actions by the directors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond, St. Louis, Minneapolis, and Dallas, increasing the discount rates at those Banks from 3 per cent to 3½ per cent, effective Wednesday, July 17, 1963. The change was the first since mid-1960, when Federal Reserve Bank discount rates were reduced in two steps from 4 per cent to 3 per cent.

The Board of Governors also increased to 4 per cent, effective Wednesday, July 17, the maximum rate of interest that member banks are permitted to pay on time deposits and certificates with maturities from 90 days to one year. Since January 1962, the permissible rate ceilings had been 3½ per cent on time deposits and certificates with maturities of six months to one year, and 2½ per cent on those of 90 days to six months' duration.

Payment of the higher rates was authorized by a revision of the Supplement to the Board's Regulation Q. There were no changes in the maximum rates that member banks are permitted to pay on savings deposits. Neither were there any changes in the maximum rates on time deposits and certificates having maturities of less than 90 days, which remain at 1 per cent, or on those of one year or more, where the ceiling remains 4 per cent.

Both actions are aimed at minimizing short-term capital outflows prompted by higher interest rates prevalent in other countries. Preliminary information indicates that short-term outflows contributed materially to the substantial deficit incurred once again in the balance of payments during the second quarter of this year.

Recently, market rates on U. S. Treasury bills and other short-term securities have risen to levels well above the 3 per cent discount rate that had prevailed for nearly three years, making it less costly for member banks to obtain reserve funds by borrowing from the Federal Reserve Banks rather than by selling short-term securities.

The increased discount rates will reverse that circumstance, making it once again more advantageous for member banks seeking reserve funds to obtain them by selling their short-term securities rather than by borrowing from the Federal Reserve Banks. Sales so made should have a bolstering effect on short-term rates, keeping them more in line with rates in other world financial markets.

Meanwhile, the increase in the maximum rates of interest payable on time deposits and certificates with maturities from 90 days to one year will permit member banks to continue to compete effectively to attract or retain foreign and domestic funds for lending or investing.

These actions to help in relieving the potential drain on United States monetary reserves associated with the long-persistent deficit in the balance of payments do not constitute a change in the System's policy of maintaining monetary conditions conducive to fuller utilization of manpower and other resources in this country.

Enclosed are copies of this Bank's Operating Circular No. 13, setting forth this Bank's new discount rates, and of the Supplement to Regulation Q. Additional copies of this circular and the enclosures will be furnished upon request.

ALFRED HAYES,
President.

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 July 17, 1963

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 rates¹ 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 90 days or more after the date of deposit or payable upon written notice of 90 days 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 3½ per cent.**—No member bank shall pay interest accruing at a rate in excess of 3½ 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 paragraph (a)(1) of this section,

(2) On any Postal Savings deposit which constitutes a time deposit, except as otherwise provided in paragraph (a)(3) of this section.

(c) **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.

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.

DISCOUNT RATES

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

1. This Bank has established the following new rates, effective July 17, 1963:

A rate of $3\frac{1}{2}$ per cent per annum on advances to, and discounts for, member banks under sections 13 and 13a of the Federal Reserve Act.

A rate of 4 per cent per annum on advances to member banks under section 10(b) of the Federal Reserve Act.

Shown below is a schedule of rates now in effect at this Bank on advances and discounts made under the Federal Reserve Act.

2. This circular supersedes our Operating Circular No. 13, Revised August 12, 1960.

ALFRED HAYES,
President.

Rate Schedule, Effective July 17, 1963

	<i>Per Cent Per Annum</i>
<i>Advances to and discounts for member banks:</i>	
(a) Advances and discounts under sections 13 and 13a of the Federal Reserve Act	3 $\frac{1}{2}$
(b) Advances under section 10(b) of the Federal Reserve Act	4
<i>Advances to individuals, partnerships and corporations other than member banks:</i>	
Advances under last paragraph of section 13 of the Federal Reserve Act secured by direct obligations of the United States	4 $\frac{1}{2}$