

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5585]
December 7, 1964]

PAYMENT OF INTEREST ON TIME AND SAVINGS DEPOSITS

- Revision of Operating Circular No. 15
—Interpretations Under Regulation Q

To All Member Banks in the
Second Federal Reserve District:

Enclosed is a copy of Operating Circular No. 15, Revised December 7, 1964, entitled "Payment of Interest on Time and Savings Deposits."

The circular has been revised to take into account (1) the changes in the Supplement to Regulation Q of the Board of Governors of the Federal Reserve System, effective November 24, 1964, and announced in our Circular No. 5578, and (2) conforming changes in General Regulation No. 3 of the Banking Board of the State of New York, effective November 25, 1964. The changes in the Supplement to Regulation Q increased the maximum rates of interest that member banks may pay on savings deposits, and on time deposits ("time certificates of deposit" and "time deposits, open account"), as follows:

	<i>Old maximum</i>	<i>New maximum</i>
Savings deposits		
On deposit for less than 12 months.....	3½%	4%
On deposit for 12 months or more.....	4%	4%
Time deposits, with maturities of		
Less than 90 days	1%	4%
90 days or more	4%	4½%

Quoted below is the text of a series of interpretations regarding these changes, issued on November 27 by the Board of Governors of the Federal Reserve System:

1. Time certificates of deposit issued prior to November 24, 1964, may be amended by a member bank, if desired, to bear interest up to the new applicable increased maximum rates for any period subsequent to that date. For example, a certificate dated July 1, 1964, maturing July 1, 1965, may be amended to bear interest up to a rate of 4½ per cent for any period subsequent to November 24, 1964. (As hereafter noted, the rate would be subject to any restrictions imposed by applicable State law.)
2. While the revised Supplement, like the Supplement previously in effect, fixes a maximum rate of interest that may be paid on any time deposit having a maturity of less than 90 days, the Supplement must, of course, be read in connection with the provisions of Regulation Q. A deposit with a maturity of less than 30 days would not constitute a "time deposit" within the meaning of the provisions of section 217.1 of the Regulation and, unless it met the definition of a savings deposit, the deposit would constitute a demand deposit upon which the payment of interest would not be permissible.

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3. The new maximum rates are not retroactive. Consequently, a savings deposit that has remained on deposit for less than 12 months prior to November 24, 1964, may bear interest at a rate up to not more than 4 per cent for any period beginning with such date but may not bear interest at a rate in excess of 3½ per cent for any period prior to such date, except that, if and when a savings deposit, which was in the bank prior to November 24, 1964, has remained in the bank for a full 12-month period, interest may then be adjusted to provide a yield of not more than 4 per cent from the date of the deposit.

4. It should be borne in mind that State member banks are subject also to any provisions of State law or regulations thereunder that prescribe maximum rates of interest that they may pay on time and savings deposits, and in some cases State-prescribed rates may be less than the maximum rates prescribed by the Board. In addition, under section 24 of the Federal Reserve Act national banks may not pay interest on time or savings deposits at a rate in excess of the highest rate authorized by State law to be paid upon such deposits by State banks or trust companies.

5. It should be emphasized that the Supplement to the Board's Regulation Q prescribes only maximum rates of interest that member banks may pay on time and savings deposits. Member banks are free, of course, to pay lower interest rates if they so desire.

Member banks should note from the enclosed Operating Circular No. 15 that the circumstances mentioned in Interpretation 4 above do not apply in the Second Federal Reserve District, since no State in the District currently prescribes maximum rates less than the maximum rates under Regulation Q. However, member banks in New York State should note that for them the effective date of the new maximum rates is November 25, 1964.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

FEDERAL RESERVE BANK
OF NEW YORK

[Operating Circular No. 15]
[Revised December 7, 1964]

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 November 24, 1964, 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.

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

¹ The foregoing provisions are not applicable: (a) 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; and (b) during the three-year period beginning October 15, 1962, to time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member.

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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 November 25, 1964, 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 identical with those prescribed by the Board of Governors of the Federal Reserve System in the Supplement to its Regulation Q.

Banks located in Connecticut and New Jersey

7. 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

8. 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

9. This circular supersedes our Operating Circular No. 15, Revised August 16, 1963.

ALFRED HAYES,
President.