FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5834
July 15, 1966]

Lower Maximum Rates of Interest Under Regulation Q on New Multiple Maturity Time Deposits Effective July 20, 1966

*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 Board of Governors of the Federal Reserve System today lowered the maximum rate that the System's member banks may pay henceforth on those time deposits that have multiple maturities.
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> At the same time, the Board asked Congress for broader authority — for itself, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board — than is now available to govern the rate practices of banks and savings and loan associations.
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> The purpose of both steps is to help forestall excessive interest rate competition among financial institutions in conditions, such as those now existing, when monetary policy is aimed at curbing the rate of expansion of bank credit.
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> The action taken under present legislative authority prescribes, effective July 20, 1966, a maximum rate of 5 per cent on new multiple maturity deposits of 90 days or more, and 4 per cent for those of less than 90 days. Outstanding multiple maturity deposits will not be affected by the lower maximum rates.
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> Previously, member banks were authorized to pay as high as 5½ per cent on multiple maturity time deposits. The term "multiple maturity time deposit" is defined in the Board's Regulation Q as: "Any time deposit (1) that is payable at the depositor's option on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity."
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> No change was made in the ceilings respecting time deposits having a single maturity (now set at 5½ per cent) or passbook savings accounts (now set at 4 per cent).
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> Prompt consideration of the legislative proposals to broaden the rate regulatory powers of the three supervisory agencies was asked by the Board in letters to the chairmen of the Senate and House Banking and Currency Committees.
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> These proposals would empower the three supervisory agencies to prescribe different rate limitations for different classes of accounts, for accounts of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of the institutions or the account holders or on any other reasonable basis.
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> In the letters to the congressional committee chairmen, the Reserve Board pointed out that its action today under its present powers would cover only "consumer type" certificates of deposits ("CD's") in member banks.
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> "Separate ceilings are imposed on 'multiple maturity' deposits in an effort to differentiate between money market CD's and consumer-type deposits," the Board said. "Obviously, the 'multiple maturity' concept is not ideally suited for this purpose, but it is, in our judgment, the best alternative available under existing law. It may be that the only effective means for accomplishing the purposes we seek in the current situation is to differentiate on the basis of amount of deposit, even though, as you know, the Board has reservations about such an approach except as a temporary expedient. Accordingly, we hope that your Committee will give prompt consideration to broadening the existing law as proposed in the enclosed draft.
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> "At the same time, we doubt the efficiency of attempting to prevent a rate war by limiting rates payable only by banks. The draft legislation therefore includes authority for imposition of rate ceilings by the Federal Home Loan Bank Board. Under the proposal, ceilings for both banks and savings and loan associations would not be mandatory, but could be imposed or placed on a stand-by basis by the appropriate agency, after consultation with the others, in the light of existing conditions."

Enclosed are copies of the Amendment and Supplement to Regulation Q, giving effect to the Board's action. Additional copies of this circular and the enclosures will be furnished upon request.

ALFRED HAYES,
President.

PAYMENT OF INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

ISSUED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Effective July 20, 1966, section 217.1 is amended by inserting a new paragraph (*g*) as follows:

(*g*) **Multiple maturity time deposit.**—The term "multiple maturity time deposit" means any time deposit (1) that is payable at the depositor's option on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity.

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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 20, 1966

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 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) **Time deposits.**—(1) No member bank shall pay interest accruing at a rate in excess of 5½ per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed, on any time deposit, subject, however, to the provisions of subparagraphs (2) and (3) of this paragraph.

(2) No member bank shall pay interest accruing at a rate in excess of 5 per cent per annum, compounded quarterly,[2] regardless of the basis upon which such interest may be computed, on any multiple maturity time deposit received on or after July 20, 1966, which is payable only 90 days or more after the date of deposit or 90 days or more after the last preceding date on which it might have been paid.

(3) 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, on any multiple maturity time deposit received on or after July 20, 1966, which is payable less than 90 days after the date of deposit or less than 90 days after the last preceding date on which it might have been paid.

(b) **Savings deposits.**—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, on any savings deposit.

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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 prescribed when compounded quarterly.

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