

FEDERAL RESERVE BANK
OF NEW YORK

{Circular No. 5872}
{September 21, 1966}

Maximum Rate of Interest Under Regulation Q on Time Deposits Under \$100,000
Reduced from 5½ Per Cent to 5 Per Cent
Effective September 26, 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 reduced to 5 per cent from 5½ per cent the maximum rate of interest that the System's member banks may pay on any time deposit under \$100,000. The Board's action, to become effective September 26, 1966, was taken under the new authority granted in the law signed by the President today, providing increased flexibility for establishing ceiling rates on time deposits and savings accounts at commercial banks and other depository institutions.

The purpose of the Board's action is to limit further escalation of interest rates paid in competition for consumer savings. The action will also help to keep the growth of commercial bank credit to a moderate pace.

The reduction in maximum rates on time deposits of less than \$100,000 does not, by itself, require any change in interest paid on certificates of deposit and other time deposits outstanding on the effective date. If a member bank has agreed to pay a specified rate of interest on such a deposit, without any right to modify its obligation, it may continue to pay the contract rate to maturity. If the deposit is then renewed, the rate of interest may not exceed the new ceiling.

The Board's action does not change the maximum rate payable by member banks on savings accounts, which remains at 4 per cent. The maximum rates payable on multiple maturity time deposits, which are 4 per cent or 5 per cent, depending on maturity, are also unchanged. The ceiling rate on single maturity time deposits of over \$100,000 remains at the present level of 5½ per cent.

Today's action is one of a series of measures taken by the Federal Reserve System in recent months to temper the aggressive competition for funds among commercial banks and other financial institutions, and at the same time to assure an orderly and moderate rate of growth in bank credit in order to restrain inflationary pressures. Earlier actions included a lowering of interest rate ceilings on time deposits with multiple maturities, two increases in the reserves that member banks must maintain against some of their time deposits and, more recently, a statement to member banks concerning the need to adopt lending policies that will result in slowing the growth of business loans.

Enclosed is a copy of the amended Supplement to Regulation Q, implementing the Board's action. Additional copies of this circular and the enclosure 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 September 26, 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 rates¹ of interest payable by member banks of the Federal Reserve System on time and savings deposits:

(a) **Maximum rate of 5½ per cent.**—No member bank shall pay interest at a rate in excess of 5½ per cent per annum on any time deposit of \$100,000 or more, subject, however, to the provisions of (b) (ii) and (c) (i), below.

(b) **Maximum rate of 5 per cent.**—No member bank shall pay interest at a rate in excess of 5 per cent per annum (i) on any time deposit of less than \$100,000, subject, however, to the provisions of (c) (i), below, or (ii) on any multiple maturity time deposit that 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.

(c) **Maximum rate of 4 per cent.**—No member bank shall pay interest at a rate in excess of 4 per cent per annum (i) on any multiple maturity time deposit that 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, or (ii) on any savings deposit.

In calculating the rate of interest paid, the effects of compounding of interest may be disregarded. A member bank that elects to compound interest—either at the maximum permissible rate or at a lower rate—shall state the basis of compounding (such as semiannually, quarterly, monthly, weekly, daily, or continuously) in every advertisement, announcement, solicitation, and agreement relating to the rate of interest paid on a deposit.

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.