

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 5873]  
[September 26, 1966]

NOTICE OF PROPOSED RULE MAKING

Revised Definitions of "Time Deposits" and "Savings Deposits"  
in Regulations D and Q

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

The following statement was made public September 23 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today announced proposed amendments to its Regulations D and Q ("Reserves of Member Banks"; "Payment of Interest on Deposits") designed to sharpen the technical distinctions between "time deposits" and "savings deposits."

At present, deposits of individuals or certain nonprofit organizations as to which the depositor is required by the deposit contract to give notice in writing not less than 30 days before making a withdrawal may be either "savings deposits" or "time deposits" (time certificate of deposit or time deposit, open account). Under the new proposal, such a deposit could only be a "time deposit." The distinguishing feature of "savings deposits," in this respect, would be the reservation by the bank of the right to require 30 days' notice of withdrawal. In practice, banks routinely reserve such a right, although it is rarely exercised.

The proposal is also designed to make clear that a deposit payable on a specified date or at the expiration of a specified period of time after the date of the deposit (sometimes referred to as a "fixed maturity" deposit) does not constitute a "savings deposit."

Comments on the proposed amendments should be submitted by October 21, 1966.

The text of the proposal, as submitted for publication in the *Federal Register*, is attached.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,  
President.

FEDERAL RESERVE SYSTEM

[ 12 CFR Parts 204, 217  
Regs. D, Q ]

RESERVES OF MEMBER BANKS; PAY-  
MENT OF INTEREST ON DEPOSITS

Notice of Proposed Rule Making

The Board of Governors is considering amending Parts 204 and 217 as follows:

1. Section 204.1(d) and (e) and § 217.1(d) and (e) would be amended to read as follows:

(d) *Time deposits, open account.*—The term "time deposit, open account" means a deposit, other than a "time certificate of deposit", with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 30

days after the date of the deposit,<sup>2</sup> or prior to the expiration of the period of notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.<sup>3</sup>

(e) *Savings deposits.*—The term "savings deposit" means a deposit—

(1) which consists of funds deposited to the credit of one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes

<sup>2</sup> Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account" even though some of the deposits are made within 30 days from the end of the period.

<sup>3</sup> A deposit with respect to which the bank merely reserves the right to require notice of not less than 30 days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

and not operated for profit;<sup>4</sup> or in which the entire beneficial interest is held by one or more individuals or by such a corporation, association, or other organization; and

(2) with respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made<sup>5</sup> and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

<sup>4</sup> Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition, but deposits of a partnership operated for profit may not be so classified. Deposits to the credit of an individual of funds in which any beneficial interest is held by a corporation, partnership, association, or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as savings deposits.

<sup>5</sup> The exercise by the bank of its right to require such notice shall not cause the deposit to cease to be a savings deposit.

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2. Footnote 7 in § 217.2(b)(2) would be redesignated footnote 6; footnote 8 in § 217.3(e) would be redesignated footnote 7.

3. Section 217.5 would be amended to read as follows:

§ 217.5 *Withdrawal of savings deposits.*

(a) *Requirements regarding notice of withdrawal.*—Whether or not interest is paid, no member bank shall require notice of withdrawal as to any amount or percentage of the savings deposit of any depositor unless it shall similarly require such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same requirements as to notice of withdrawal. If a member bank, without requiring notice of withdrawal, pays interest that has accrued on a savings deposit during the preceding interest period, it shall, upon request and without requiring such notice, pay in the same manner interest that has accrued during the preceding interest period on the savings deposits of every other depositor. No member bank shall change its practice with respect to requiring notice of withdrawal of savings deposits for the purpose of discriminating in favor of or against any depositor or depositors, and no such change of practice shall be made except pursuant to duly recorded action of the bank's board of directors or a properly authorized committee thereof.

(b) *Loans on security of savings deposits.*—If it is not the practice of a member bank to require notice of withdrawal of savings deposits, no restrictions are imposed by this part upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 2 per cent per annum in excess of the rate of interest paid on the savings deposit.

3. Subparagraphs (2), (3), and (4) of present § 217.1(e) would be transferred to § 217.5 and become paragraph (c) of that section, with redesignation of such subparagraphs as subparagraphs (1), (2), and (3) respectively, with conforming changes in cross-references within such subparagraphs, and with redesignation of present footnote 5 as footnote 8.

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The purpose of these amendments is to sharpen the distinction between savings deposits and time deposits in order to facilitate interpretation and administration of the Regulations. The Regulations are not entirely clear whether certificates or other instruments that are payable at a "fixed" maturity (i.e., at a specified date or at the expiration of a specified period after the date of deposit), which meet the definition of a "time certificate of deposit", may nevertheless be classified as savings deposits.

Also, under the present Regulations, "savings deposits" are defined as deposits of individuals and certain types of non-profit organizations as to which the depositor "is required, or may at any time be required, by the bank to give notice in writing of an intended withdrawal not less than 30 days before such withdrawal is made." Because this definition includes a deposit of an individual as to which at least 30 days' written notice of withdrawal is *required* by the deposit contract, an individual is literally precluded from having a "time deposit, open account". The definition of that term includes deposits as to which not less than 30 days' written notice of withdrawal is required, and expressly excludes any deposit that meets the definition of a savings deposit.

The proposed amendments to the Regulations would amend the definition of savings deposit so that—

(1) deposits payable on a specified date or at the expiration of a specified period of time after the date of deposit would be expressly *excluded* from savings deposits;

(2) deposits as to which notice of withdrawal is *required* by the contract would be excluded from savings deposits, but the exercise of a bank's reserved right to require such notice would not cause a savings deposit to cease to be such.

Because the definitions of "time deposit, open account" and "savings deposits" would no longer overlap, the exception from the definition of "time deposit, open account" of a "savings deposit" would be eliminated. Because a savings deposit contract could no longer contain a provision requiring the depositor to give notice of withdrawal, the provisions of Regulation Q with respect to the requirements of notice in connection with contracts containing such a provision would also be eliminated. In doing so, the section relating to notice of withdrawal of savings deposits would be editorially revised, and subparagraphs (2), (3), and (4) of the present § 217.1(e), which relate to the manner of payment of savings deposits, would be transferred thereto.

This notice is published pursuant to section 553(b) of title 5, United States Code, and section 1(b) of the Rules of Procedure of the Board of Governors of the Federal Reserve System (12 CFR 262.1(b)).

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C., 20551, to be received not later than October 21, 1966.

Dated at Washington, D. C., this 21st day of September, 1966.

By order of the Board of Governors.

MERRITT SHERMAN,  
*Secretary.*