

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 5949 ]  
[ February 23, 1967 ]

Regulations D and Q Revised  
Effective January 1, 1967

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

Enclosed are copies of the following regulations of the Board of Governors of the Federal Reserve System, as amended effective January 1, 1967:

Regulation D, entitled "Reserves of Member Banks," and  
Regulation Q, entitled "Payment of Interest on Deposits."

The regulations have been revised to incorporate all of their outstanding amendments and to reflect certain editorial changes. The Supplements to Regulations D and Q, effective January 5, 1967 and September 26, 1966, respectively, are not incorporated in the revision of those regulations and should therefore be retained.

Additional copies of the revised regulations will be furnished upon request.

ALFRED HAYES,  
*President.*

**BOARD OF GOVERNORS**  
of the  
**FEDERAL RESERVE SYSTEM**

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**RESERVES OF MEMBER BANKS**

**REGULATION D**  
**(12 CFR 204)**

**As amended effective January 1, 1967**



## **INQUIRIES WITH RESPECT TO THIS REGULATION**

**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.**

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### **STATUTORY AUTHORITY**

This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act (12 U.S.C. 461, 462, 464, 465) which, together with related provisions of law, are published in the Appendix hereto.

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# REGULATION D

(12 CFR 204)

As amended effective January 1, 1967

## RESERVES OF MEMBER BANKS \*

### SECTION 204.1—DEFINITIONS

(a) **Demand deposits.**—The term “demand deposits” includes all deposits except “time deposits” as defined below.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposits,” “time deposits, open account” and “savings deposits,” as defined below.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order—

(1) On a certain date, specified in the instrument, not less than 30 days after the date of deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,<sup>1</sup> and

(4) In all cases only upon presentation and surrender of the instrument.

(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

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\* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 204; cited as 12 CFR 204. The words “this part”, as used herein, mean Regulation D.

<sup>1</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 certificate of deposit”.

<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.

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 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 it not payable on a specified date or at the expiration of a specified time after the date of deposit.

(f) **Deposits as including certain promissory notes.**—For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than 2 years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

(g) **Gross demand deposits.**—The term “gross demand deposits” means the sum of all demand deposits, including

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<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.

<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.

demand deposits made by other banks, the United States, States, counties, school districts and other governmental subdivisions and municipalities, and all outstanding certified and officers' checks (including checks issued by the bank in payment of dividends), and letters of credit and travelers' checks sold for cash.

**(h) Cash items in process of collection.**—The term “cash items in process of collection” means:

(1) Checks in process of collection, drawn on a bank, private bank, or any other banking institution, which are payable immediately upon presentation in the United States, including checks with a Federal Reserve bank in process of collection and checks on hand which will be presented for payment or forwarded for collection on the following business day;

(2) Government checks and warrants drawn on the Treasurer of the United States which are in process of collection;

(3) Such other items in process of collection, payable immediately upon presentation in the United States, as are customarily cleared or collected by banks as cash items.

Items handled as noncash collections may not be treated as “cash items in process of collection” within the meaning of this part.

**(i) Net demand deposits.**—The term “net demand deposits” means gross demand deposits as defined in paragraph (g) of this section less the deductions allowed under the provisions of § 204.2 (b).

**(j) Currency and coin.**—The term “currency and coin” means United States currency and coin owned and held by a member bank, including currency and coin in transit to or from a Federal Reserve bank.

#### SECTION 204.2—COMPUTATION OF RESERVES

**(a) Amounts of reserves to be maintained.**—(1) Every member bank shall maintain on deposit with the Federal Reserve bank of its district an actual net balance equal to 3 per cent of its time deposits, plus 7 per cent of its net demand deposits if it is not located in a reserve city or 10 per cent of its net demand deposits if it is located in a reserve city, or such different percentages of its time deposits and net demand deposits as the Board of Governors of the Federal Reserve System, pursuant to and within the limitations contained in section 19 of the Federal

Reserve Act, may prescribe from time to time in § 204.5 (the Supplement to this part); *Provided*, That a member bank's currency and coin shall be counted as reserves in determining compliance with such requirements to such extent as the Board of Governors of the Federal Reserve System, pursuant to section 19 of the Federal Reserve Act, may permit from time to time in § 204.5.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, a member bank located in a reserve city may hold and maintain the reserve balances which are in effect for member banks not located in reserve cities if, upon application to the Board of Governors, the Board grants permission for the holding and maintaining of such lower reserve balances after consideration of all factors relating to the character of such bank's business, including but not limited to, the amount of such member bank's total assets, the amount of its total deposits, the amount of its total demand deposits, the amount of its demand deposits owing to banks, the nature of its depositors and borrowers, the rate of activity of its demand deposits, its geographical location within the city, and its competitive position with relation to other banks in the city. Any such permission shall be subject to revocation by the Board at any time in the light of changed circumstances, and all such grants of permission may be subject to annual review by the Board.

(3) For the purposes of this part, a member bank shall be considered to be in a reserve city if the head office or any branch thereof is located in a reserve city.

(b) **Deductions allowed in computing reserves.**—In determining the reserve balances required under the terms of this part, member banks may deduct from the amount of their gross demand deposits the amounts of balances subject to immediate withdrawal due from other banks and cash items in process of collection as defined in § 204.1(h). Balances "due from other banks" do not include balances due from Federal Reserve banks, balances (payable in dollars or otherwise) due from foreign banks or branches thereof wherever located, or balances due from foreign branches of domestic banks.<sup>6</sup>

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<sup>6</sup> A member bank exercising fiduciary powers may not include in balances "due from other banks" amounts of trust funds deposited with other banks and due to it as trustee or other fiduciary. If trust funds are deposited by the trust department of a member bank in its commercial or savings department and are then redeposited in another bank subject to immediate withdrawal they may be included by the member bank in balances "due from other banks," subject to the provisions of § 204.2(b).

(c) **Availability of cash items as reserve.**—Cash items forwarded to a Federal Reserve bank for collection and credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve bank until the expiration of such time as may be specified in the appropriate time schedule referred to in part 210 of this chapter. If a member bank draw against items before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to the penalties provided by law and by this part: *Provided, however,* That the Federal Reserve bank may, in its discretion, refuse at any time to permit the withdrawal or other use of credit given in its reserve account for any item for which the Federal Reserve bank has not received payment in actually and finally collected funds.

(d) **Reserves against trust funds.**—A member bank exercising trust powers need not maintain reserves against trust funds which it keeps properly segregated as trust funds and apart from its general assets or which it deposits in another institution to the credit of itself as trustee or other fiduciary. If, however, such funds are mingled with the general assets of the bank, a deposit liability thereby arises against which reserves must be maintained.

(e) **Continuance of “time deposit” status.**—A deposit which at the time of deposit was a “deposit evidenced by a time certificate of deposit,” “time deposit, open account,” or “savings deposit” continues to be a “time deposit” until maturity or the expiration of the period of notice of withdrawal, although it has become payable within 30 days. After the date of maturity of any time deposit, such deposit is a demand deposit. After the expiration of the period of notice given with respect to the repayment of any savings deposit or other time deposit, such deposit is a demand deposit, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a savings deposit or other time deposit, as the case may be, after the date upon which such advice is received by the bank.

#### SECTION 204.3—DEFICIENCIES IN RESERVES

(a) **Computation of deficiencies.**—(1) Deficiencies in reserve balances of member banks in reserve cities shall be computed on

the basis of average daily net deposit balances and average daily currency and coin covering weekly periods.<sup>7</sup> Deficiencies in reserve balances of other member banks shall be computed on the basis of average daily net deposit balances and average daily currency and coin covering biweekly periods.

(2) In computing such deficiencies the required reserve balance of each member bank at the close of business each day shall be based upon its net deposit balances and currency and coin at the opening of business on the same day; and the weekly and biweekly periods referred to in subparagraph (1) hereof shall end at the close of business on days to be fixed by the Federal Reserve banks with the approval of the Board of Governors of the Federal Reserve System. When, however, the reserve computation period ends with a nonbusiness day, or two or more consecutive nonbusiness days, of the member bank or its Federal Reserve bank, such nonbusiness day or days may, at the option of the member bank, and whether or not it had a reserve deficiency in such computation period, be included in the next reserve computation period.

(b) **Penalties.**—(1) Penalties for such deficiencies will be assessed monthly on the basis of average daily deficiencies during each of the reserve computation periods ending in the preceding calendar month.

(2) Such penalties will be assessed at a rate of 2 per cent per annum above the Federal Reserve bank rate applicable to discounts of 90-day commercial paper for member banks, in effect on the first days of the calendar month in which the deficiencies occurred.

(c) **Notice to directors of banks deficient in reserves.**—Whenever it shall appear that a member bank is not paying due regard to the maintenance of its reserves, the Federal Reserve bank shall address a letter to each director of such bank calling attention to the situation and advising him of the requirements of the law and of this part regarding the maintenance of reserves.

(d) **Continued deficiencies.**—If, after the notice provided for in paragraph (c) of this section has been given, it shall appear

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<sup>7</sup> However, deficiencies in reserve balances of member banks in reserve cities which have been authorized by the Board of Governors, under the provisions of § 204.2(a)(2), to hold and maintain the reserve balances in effect for member banks not in reserve cities will be computed on the basis provided for such latter member banks.

that the member bank is continuing its failure to pay due regard to the maintenance of its reserves, the Federal Reserve bank shall report such fact to the Board of Governors of the Federal Reserve System with a recommendation as to whether or not the Board should:

(1) In the case of a national bank, direct the Comptroller of the Currency to bring suit to forfeit the charter of such national bank pursuant to section 2 of the Federal Reserve Act (38 Stat. 252; 12 U.S.C. 501a); or

(2) In the case of a State member bank, institute proceedings to require such bank to surrender its stock in the Federal Reserve bank and to forfeit all rights and privileges of membership pursuant to section 9 of the Federal Reserve Act (46 Stat. 251; 12 U.S.C. 327); or

(3) In either case, take such other action as the Federal Reserve bank may recommend or the Board of Governors of the Federal Reserve System may consider advisable.

(SECTION 204.5—SUPPLEMENT, containing reserve percentages and use of vault cash in meeting reserve requirements, is printed separately.)

## REGULATION D

## APPENDIX

## STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act (12 U.S.C. 461, 462, 464, 465) provides in part as follows:

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

(b) Every member bank shall maintain reserves against its deposits in such ratios as shall be determined by the affirmative vote of not less than four members of the Board within the following limitations:

(1) In the case of any member bank in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 10 per centum and not more than 22 per centum, except that the Board, either in individual cases or by regulation, on such basis as it may deem reasonable and appropriate in view of the character of business transacted by such bank, may make applicable the reserve ratios prescribed for banks not in reserve cities.

(2) In the case of any member bank not in a reserve city, the minimum reserve ratio for any demand deposit shall be not less than 7 per centum and not more than 14 per centum.

(3) In the case of any deposit other than a demand deposit, the minimum reserve ratio shall be not less than 3 per centum and not more than 10 per centum.

(c) Reserves held by any member bank to meet the requirements imposed pursuant to subsection (b) of this section shall be in the form of—

(1) balances maintained for such purpose by such bank in the Federal Reserve bank of which it is a member, and

(2) the currency and coin held by such bank, or such part thereof as the Board may by regulation prescribe.

\* \* \* \* \*

(f) The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors

of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

(g) In estimating the reserve balances required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

[The provisions of section 19 as set forth above became effective by Act of September 21, 1966 (80 Stat. 823). That Act provides that one year from the date of its enactment, each provision of law amended by it is further amended to read as immediately before its enactment. On September 20, 1966, the relevant provisions of section 19 read as follows:

The Board of Governors of the Federal Reserve System is authorized for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: *Provided*, That, within the meaning of the provisions of this section regarding the reserves required of member banks, the term "time deposits" shall include "savings deposits".

Every bank, banking association, or trust company which is or which becomes a member of any Federal Reserve bank shall establish and maintain reserve balances with its Federal Reserve bank as follows:

(a) If not in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than seven per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

(b) If in a reserve city, as now or hereafter defined, it shall hold and maintain with the Federal Reserve bank of its district an actual net balance equal to not less than ten per centum of the aggregate amount of its demand deposits and three per centum of its time deposits.

Notwithstanding the other provisions of this section (1) the Board of Governors, under such regulations as it may prescribe, may permit member banks to count all or part of their currency and coin as reserves required under this section; and (2) a member bank in a reserve city may hold and maintain the reserve balances which are in effect under this section for member banks described in paragraph (a), if permission for the holding and maintaining of such lower reserve balances is granted by the Board of Governors of the Federal Reserve System, either in individual cases or under regulations of the Board, on such basis as the Board may deem reasonable and appropriate in view of the character of business transacted by the member bank.

## REGULATION D

Notwithstanding the other provisions of this section, the Board of Governors of the Federal Reserve System, upon the affirmative vote of not less than four of its members, in order to prevent injurious credit expansion or contraction, may by regulation change the requirements as to reserves to be maintained against demand or time deposits or both (1) by member banks in reserve cities, (2) by member banks not in reserve cities, or (3) by all member banks; but the amount of the reserves required to be maintained by any such member bank as a result of any such change shall not be less than the amount of the reserves required by law to be maintained by such bank nor more than twice such amount, except that in the case of member banks in reserve cities the maximum amount of reserves which may be required to be maintained against demand deposits shall be 22 per centum.

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The required balance carried by a member bank with a Federal Reserve bank may, under the regulations and subject to such penalties as may be prescribed by the Board of Governors of the Federal Reserve System, be checked against and withdrawn by such member bank for the purpose of meeting existing liabilities.

In estimating the reserve balance required by this Act, member banks may deduct from the amount of their gross demand deposits the amounts of balances due from other banks (except Federal Reserve banks and foreign banks) and cash items in process of collection payable immediately upon presentation in the United States, within the meaning of these terms as defined by the Board of Governors of the Federal Reserve System.

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Notwithstanding the provisions of the First Liberty Bond Act, as amended, the Second Liberty Board Act, as amended, and the Third Liberty Bond Act, as amended, member banks shall be required to maintain the same reserves against deposits of public moneys by the United States as they are required by this section to maintain against other deposits: *Provided*, That until six months after the cessation of hostilities in the present war as determined by proclamation of the President or concurrent resolution of the Congress no deposit payable to the United States by any member bank arising solely as the result of subscriptions made by or through such member bank for United States Government securities issued under authority of the Second Liberty Bond Act, as amended, shall be subject to the reserve requirements of this section.]

Section 11 of the Federal Reserve Act (38 Stat. 262, as amended; 12 U.S.C. 248) provides in part as follows:

The Board of Governors of the Federal Reserve System shall be authorized and empowered: \* \* \* (c) To suspend for a period not exceeding thirty days, and from time to time to renew such suspension for periods not exceeding fifteen days, any reserve requirements specified in this Act: *Provided*, That it shall establish a graduated tax upon the amounts by which the reserve requirements of this Act may be permitted to fall below the level hereinafter specified \* \* \*.

**BOARD OF GOVERNORS  
of the  
FEDERAL RESERVE SYSTEM**

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**PAYMENT OF INTEREST ON DEPOSITS**



**REGULATION Q  
(12 CFR 217)**

**As amended effective January 1, 1967**



## **INQUIRIES WITH RESPECT TO THIS REGULATION**

**Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve district in which the inquiry arises.**

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## REGULATION Q

(12 CFR 217)

As amended effective January 1, 1967

### PAYMENT OF INTEREST ON DEPOSITS \*

#### SECTION 217.0—SCOPE OF PART

(a) This regulation is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are cited in the note [Appendix] preceding this section:

(b) This part relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Part 204 of this chapter.

(c) The provisions of this part do not apply 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.

#### SECTION 217.1—DEFINITIONS

(a) **Demand deposits.**—The term “any deposit which is payable on demand”, hereinafter referred to as a “demand deposit”, includes every deposit which is not a “time deposit” or “savings deposit”, as defined in this section.

(b) **Time deposits.**—The term “time deposits” means “time certificates of deposit” and “time deposits, open account”, as defined in this section.

(c) **Time certificates of deposit.**—The term “time certificate of deposit” means a deposit evidenced by a negotiable or nonnegotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order:

(1) On a certain date, specified in the instrument, not less than 30 days after date of the deposit, or

(2) At the expiration of a certain specified time not less than 30 days after the date of the instrument, or

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\* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 217; cited as 12 CFR 217. The words “this part”, as used herein, mean Regulation Q.

(3) Upon notice in writing which is actually required to be given not less than 30 days before the date of repayment,<sup>1</sup> and

(4) In all cases only upon presentation and surrender of the instrument.

(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 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

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<sup>1</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 certificate of deposit” within the meaning of the above definition.

<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.

<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.

is not payable on a specified date or at the expiration of a specified time after the date of deposit.

(f) **Deposits as including certain promissory notes.**—For the purposes of this part, the term “deposits” shall be deemed to include any promissory note, acknowledgment of advance, due bill, or similar instrument that is issued by a member bank principally as a means of obtaining funds to be used in its banking business, except any such instrument (1) that is issued to another bank, (2) that evidences an indebtedness arising from a transfer of assets that the bank is obligated to repurchase, or (3) that has an original maturity of more than 2 years and states expressly that it is subordinated to the claims of depositors. This paragraph shall not, however, affect the status, for purposes of this part, of any instrument issued before June 27, 1966.

(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.

#### SECTION 217.2—DEMAND DEPOSITS

(a) **Interest prohibited.**—Except as provided by section 19 of the Federal Reserve Act, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit.

(b) **Meaning of interest.**—Within this part, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

#### SECTION 217.3—MAXIMUM RATE OF INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate prescribed from time to time.**—Except in accordance with the provisions of this part, no member bank shall pay interest on any time deposit or savings deposit in any manner, directly or indirectly, or by any method, practice, or device whatsoever. No member bank shall pay interest on any time deposit or savings deposit at a rate in excess of such applicable

maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time; and any rate or rates which may be so prescribed by the Board will be set forth in supplements to this part, which will be issued in advance of the date upon which such rate or rates become effective. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on 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.

**(b) Modification of contracts to conform to regulation.**—No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this part, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this part.

**(c) Member banks limited to maximum rate for State banks.**—The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (1) the applicable maximum rate prescribed pursuant to the provisions of paragraph (a) of this section, or (2) 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.

**(d) Grace periods in computing interest on savings deposits.**—A member bank may pay interest on a savings deposit received during the first 10 calendar days of any calendar month at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this part, whichever shall first occur; and a member bank may pay interest on a savings deposit withdrawn during its last 3 business days of any calendar month ending a regular quarterly or semiannual interest period at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated to the end of such calendar month.

**(e) Continuance of time deposit status.**—A deposit which was a time deposit at the date of deposit continues to be such until maturity although it has become payable within 30 days, and interest at a rate not exceeding that prescribed pursuant to the

provisions of paragraph (a) of this section may be paid until maturity upon such deposit. A time deposit or a savings deposit with respect to which notice of withdrawal has been given continues to be such until the expiration of the period of such notice, and interest may be paid upon such deposit until the expiration of the period of such notice at a rate not exceeding that prescribed pursuant to the provisions of paragraph (a) of this section. Interest at a rate not exceeding that prescribed pursuant to the provisions of paragraph (a) of this section may be paid upon savings deposits with respect to which notice of intended withdrawal has not actually been required or given. No interest shall be paid by a member bank on any amount which, by the terms of any certificate or other contract or agreement or otherwise, the bank may be required to pay within 30 days from the date on which such amount is deposited in such bank.<sup>6</sup>

**(f) No interest after maturity or expiration of notice.**—After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advise the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank.

#### SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

**(a) Time deposits payable on a specified date.**—No member bank shall pay any time deposit, which is payable on a specified date, before such specified date, except as provided in paragraph (d) of this section.

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<sup>6</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 such period.

(b) **Time deposits payable after a specified period.**—No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in paragraph (d) of this section.

(c) **Time deposits payable after a specified notice.**—No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in paragraph (d) of this section.

(d) **Payment in emergencies.**—In an emergency where it is necessary to prevent great hardship to the depositor, a member bank may pay before maturity a time deposit or the portion thereof necessary to meet such emergency: *Provided*, That before making such payment the depositor shall sign an application describing fully the circumstances constituting the emergency which is deemed to justify the payment of the deposit before maturity, which application shall be approved by an officer of the bank who shall certify that, to the best of his knowledge and belief, the statements in the application are true. Such application shall be retained in the bank's files and made available to the examiners authorized to examine the bank. Where a time deposit is paid before maturity the depositor shall forfeit accrued and unpaid interest for a period of not less than 3 months on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit 3 months or longer, and shall forfeit all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn has been on deposit less than 3 months. When a portion of a time certificate of deposit is paid before maturity, the certificate shall be canceled and a new certificate shall be issued for the unpaid portion of the deposit with the same terms, rate, date and maturity as the original deposit.

(e) **Loans upon security of time deposits.**—A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 2 per cent per annum in excess of the rate of interest on the time deposit.

## SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice of withdrawal.**—Whether or not interest is paid, no member bank shall require or waive notice of withdrawal as to any amount or percentage of the savings deposit of any depositor unless it shall similarly require or waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same contractual provisions with respect 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 interest that has accrued during said period on the savings deposits of every other depositor. No member bank shall change its practice with respect to the requiring or waiving of 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 such deposit.

(c) **Manner of payment of savings deposits.**—(1) Subject to the provisions of subparagraph (2) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment<sup>7</sup> to the depositor himself (but not to any other person whether or not acting for the depositor), except

(i) where the deposit is represented by a passbook, to any person presenting the passbook;<sup>7</sup>

(ii) to an executor, administrator, trustee, or other fiduciary holding the savings deposit as part of a fiduciary estate, or to a person, other than the bank, holding a general power of attorney granted by the depositor;

<sup>7</sup> Payment from a savings deposit or presentation of a passbook may be made over the counter, through the mails, or otherwise.

(iii) to any person, including the bank, that has extended credit to the depositor on the security of the savings deposit, where such payment is made in order to enable the creditor to realize upon such security;

(iv) pursuant to the order of a court of competent jurisdiction;

(v) upon the death of the depositor, to any person authorized by law to receive the deposit; or

(vi) interest paid to a third person pursuant to written instruction or assignment by the depositor accepted by the bank, and placed on file therein.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, no withdrawal shall be permitted by a member bank to be made from a savings deposit, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor (other than of interest on the savings deposit) if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral,

(i) which authorizes such payments or transfers of credit to be made as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank; or

(ii) which provides that such payments or transfer of credit shall be made at daily, monthly, or other such periodic intervals, except where made to enable the bank, on the depositor's behalf and pursuant to his written instructions, to effect the payment of instalments of principal, interest, or other charges (including taxes or insurance premiums) due on a real estate loan or mortgage.

(3) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal from such a deposit shall be entered in the passbook as soon as practicable after the withdrawal is made.

(SECTION 217.6—MAXIMUM RATES OF INTEREST PAYABLE ON TIME AND SAVINGS DEPOSITS BY MEMBER BANKS, is printed separately.)

## APPENDIX

## STATUTORY PROVISIONS

Section 19 of the Federal Reserve Act (12 U.S.C. 461, 371a, 371b) provides in part as follows:

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

\* \* \* \* \*

(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

## REGULATION Q

(j) The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, limit by regulation the rates of interest which may be paid by member banks on time and savings deposits. The Board may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply 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. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on 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.

[The provisions of section 19 as set forth above became effective by Act of September 21, 1966 (80 Stat. 823). That Act provides that one year from the date of its enactment, each provision of law amended by it is further amended to read as immediately before its enactment. On September 20, 1966, the relevant provisions of section 19 read as follows:

The Board of Governors of the Federal Reserve System is authorized, for the purposes of this section, to define the terms "demand deposits", "gross demand deposits", "deposits payable on demand", "time deposits", "savings deposits", and "trust funds", to determine what shall be deemed to be a payment of interest, and to prescribe such rules and regulations as it may deem necessary to effectuate the purposes of this section and prevent evasions thereof: \* \* \*

\* \* \* \* \*

No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless

it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

The Board of Governors of the Federal Reserve System shall from time to time limit by regulation the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposit except as to all savings deposits having the same requirement: *Provided*, That the provisions of this paragraph shall not apply 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. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on 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.]

Section 24 of the Federal Reserve Act (12 U.S.C. 371) provides with respect to national banking associations in part as follows:

\* \* \* Any such association may continue hereafter as heretofore to receive time and savings deposits and to pay interest on the same, but the rate of interest which such association may pay upon such time deposits or upon savings or other deposits shall not exceed the 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 association is located.