

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 6316  
April 7, 1969

PROPOSED AMENDMENTS TO REGULATION Q  
Guidelines for Advertising Interest on Deposits

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

Printed below is an excerpt from the Federal Register of April 5, containing the text of proposed amendments to Regulation Q that would establish guidelines for advertising interest on deposits. Comments on the proposed amendments should be submitted by April 28 and may be sent to the Board of Governors through our Bank Examinations Department.

Additional copies of this circular will be furnished upon request.

Alfred Hayes,  
President.

FEDERAL RESERVE SYSTEM

[ 12 CFR Part 217 ]

PAYMENT OF INTEREST ON  
DEPOSITS

Advertising Interest on Deposits

The Board of Governors is considering amending Part 217 (Regulation Q) in the following respects:

1. The heading of the part would be amended to read as follows:

PART 217—INTEREST ON DEPOSITS

2. The last two sentences of § 217.6 would be revoked and the remainder of that section redesignated as § 217.7.

3. Section 217.3 (a) and (e) would be amended to read as follows:

(a) *Maximum rate.* Except as provided in this section, no member bank shall, directly or indirectly, by any device whatsoever, pay interest on any time 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 in § 217.7. In ascertaining the rate of interest paid, the effects of compounding of interest may be disregarded.

(e) *Technical grace periods in compounding interest on certain time deposits.* Where a time deposit matures in 30 days, 90 days, 180 days, 360 days, or even multiples of these periods, or where a time deposit matures in 1 month, 3 months, 6 months, 12 months, or even multiples of these periods, member banks may pay interest for such periods at one-twelfth of the maximum rate, one-quarter of the maximum rate, one-half of the maximum rate, or at the maximum rate, or even multiples thereof, respectively. In the case of any other time deposit no member bank shall pay interest at the maximum rate based on more days than the number of days the funds are actually on deposit.

4. In § 217.3(g) the reference to "§ 217.6" would be amended to refer to "§ 217.7."

5. A new § 217.6 would be added to read as follows:

§ 217.6 Advertising of interest on deposits.

Every advertisement, announcement, or solicitation relating to the interest paid on deposits in member banks shall be governed by the following rules:

(a) *Annual rate of simple interest.* Interest rates shall be stated in terms of the annual rate of simple interest. In no case shall a rate be advertised that is in excess of the applicable maximum rate for the particular deposit.

(b) *Percentage yields based on 1 year.* Where a percentage yield achieved by compounding interest during 1 year is advertised, the annual rate of simple interest shall be stated with equal prominence, together with a reference to the basis of compounding. No member bank shall advertise a percentage yield based on the effect of grace periods permitted in § 217.3.

(c) *Percentage yields based on periods in excess of 1 year.* No advertisement shall include any indication of a total percentage yield, compounded or simple, based on a period in excess of a year, or an average annual percentage yield achieved by compounding during a period in excess of a year, unless the annual rate of simple interest and the required number of years for such advertised yield are stated with equal prominence, together with a reference to the basis of compounding. No member bank shall advertise any average annual percentage yield achieved by compounding interest during a period in excess of a year unless such yield is clearly qualified by the following language: "This yield is an average annual yield that will be attained if the deposit is held until the final indicated maturity and if interest is not withdrawn until such maturity."

(d) *Time or amount requirements.* If an advertised rate is payable only on deposits that meet time or amount requirements, such requirements shall be clearly stated. Where the time requirement for an advertised rate is in excess of a year, the required number of years for the rate to apply shall be stated with equal prominence, together with an indication of any lower rate or rates that will apply if the deposit is withdrawn at an earlier maturity.

(e) *Profit.* No reference shall be made to "profit".

(f) *Advertisement must be accurate.* No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate in any particular or that in any way misrepresents its deposit contracts.

(g) *Solicitation of deposits for banks.* Any person or organization other than a member bank that solicits deposits for a member bank shall be bound by the rules contained in this section with re-

spect to any advertisement, announcement, or solicitation relating to such deposits. No such person or organization shall advertise a percentage yield on any deposit it solicits for a member bank that is not authorized to be paid and advertised by such bank.

6. Sections 217.104 and 217.145 would be revoked.

These proposed amendments are designed to implement the authority granted to the Board by section 2 of the Act of September 21, 1968 (82 Stat. 856) and would supersede the statement of principles on bank advertising for funds set forth in the Board's letter to member State banks of December 16, 1966.

The principal purpose of the proposed amendments is to add a new rule governing advertising of interest on deposits under which a member bank that advertises the average annual percentage yield on deposits would be required to include an equally prominent statement of the simple interest rate and the number of years required to achieve the yield, together with a reference to the basis for compounding and an explanatory statement on average annual yield. In addition, the proposed amendments would add a rule making the advertising rules expressly applicable to persons or organizations who solicit deposits for member banks in their advertisements relating to such deposits. The effect of this latter requirement would be to prevent brokers from advertising percentage yields on deposits solicited for member banks that are in excess of yields member banks themselves are permitted to advertise.

This notice is published pursuant to section 553(b) of title 5, United States Code, and § 262.2(a) of the rules of procedure of the Board of Governors.

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 April 28, 1969.

Dated at Washington, D.C., this 28th day of March 1969.

By order of the Board of Governors.  
[SEAL] ROBERT P. FORRESTAL,  
Assistant Secretary.

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8:46 a.m.]