

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 6351 ]  
June 18, 1969

AMENDMENTS TO REGULATION Q  
Advertising of Interest on Deposits

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

Following is the text of a statement issued yesterday by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today adopted regulations governing the advertising of interest paid on deposits in member banks of the Federal Reserve System. The action, which will become effective August 1, amends Federal Reserve Regulation Q, "Payment of Interest on Deposits," and implements the authority granted to the Board by Congress in the Act of September 21, 1968 (P.L. 90-505). Similar regulations are being issued by the Federal Deposit Insurance Corporation and by the Federal Home Loan Bank Board with respect to institutions under their jurisdictions.

The regulation sets out rules governing bank advertising of interest rates and yields on deposits. It was first issued for comment by the Board on March 28, 1969. The new rules supersede advertising guidelines set forth in a 1966 statement of policy. Under the regulation, any State member bank or national bank that advertises a percentage yield on deposits based on one year is required to include an equally prominent statement of the simple interest rate, together with a reference to the method of compounding. Advertising of percentage yields based on periods in excess of one year, which would have been permissible in certain circumstances under the regulation as published for comment, is prohibited by the regulation as adopted, in the interests of greater clarity.

Enclosed is a copy of the amendments to Regulation Q; additional copies will be furnished upon request.

ALFRED HAYES,  
*President.*

PAYMENT OF INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q

Effective August 1, 1969, Part 217 (Regulation Q) is amended in the following respects:

1. The heading of the Part is amended to read as follows:

PART 217—INTEREST ON DEPOSITS

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

3. The heading of section 217.3 and subsections (a) and (e) thereof are amended to read as follows:

SECTION 217.3—INTEREST ON TIME  
AND SAVINGS DEPOSITS

(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 section 217.7. In ascertaining the rate of interest paid, the effects of compounding of interest may be disregarded.

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(e) **Technical grace periods in computing 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 one month, three months, six months, twelve 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 section 217.3 (g) the reference to “section 217.6” is amended to refer to “section 217.7.”

(OVER)

5. A new section 217.6 is added to read as follows:

**SECTION 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 one year.**—Where a percentage yield achieved by compounding interest during one 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 section 217.3.

(c) **Percentage yields based on periods in excess of one 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.

(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 and conspicuously 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.**—The term “profit” shall not be used in referring to interest paid on deposits.

(f) **Accuracy of advertising.**—No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts.

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