FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6470
January 20, 1970]

Revised Maximum Interest Rates on Time and Savings Deposits Under Regulation Q

Proposed Amendment of Regulation D

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 today announced an upward realignment of maximum interest rates member commercial banks may pay on time and savings deposits. At the same time, the Board published for comment a proposed rule applying reserve requirements to certain types of bank-related commercial paper. The interest rate changes are effective January 21 while the proposed action on commercial paper, if adopted, would become effective February 26.

The dual moves were taken within the framework of continued overall credit restraint and were based on these considerations: a rebalancing of the Board's regulatory structure in the light of recently expanded authority in this field and developments in financial markets; a readjustment of structure of maximum interest rates payable by commercial banks for deposits to bring it somewhat more in line with going yields on market securities; the need for greater equity in the rates that may be paid for smaller savings balances, and a desire to encourage longer-term savings in reinforcement of anti-inflationary measures.

The revisions in the Board's Regulation Q ceiling rates were held to moderate size, so as not to foster sudden and large movements of funds into the banking system that could cause distortions in traditional financial flows or lead to an upsurge in bank lending.

The revisions were made after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board, which have parallel regulatory authority over the maximum interest rates that may be paid by insured State nonmember banks, mutual savings banks, and savings and loan associations.

In taking the actions announced, the Board of Governors expressed its belief that higher rates paid to savers by institutions generally would increase the pool of savings for investment in mortgages.

The change in the maximum interest rates payable on time and savings deposits is the first since April 19, 1968, when maximum interest rates on deposits of $100,000 or more were increased.

In today's action, the Board raised from 4 to 4.5 per cent the maximum rate national and State member banks may pay on passbook savings, the first change in this rate since November 24, 1964. The Board also approved the following maximum rate structure for other types of consumer-type deposits — those of less than $100,000:

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Maturity	*New maximum*	*Present maximum*
30–89 days multiple maturity[1]	4.50	4.00
90 days and over multiple maturity[1]	5.00	5.00
30 days–1 year single maturity	5.00	5.00
1 year single maturity	5.50	5.00
2 year single maturity	5.75	5.00

[1]Multiple maturity time deposits include deposits that are automatically renewable at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

Previously, there was no provision in Regulation Q for an interest rate above 5 per cent on consumer-type deposits. The one-year and two-year instruments that may now be offered by member banks at the 5.50 per cent and 5.75 per cent maximum rates respectively must be single-dated maturities.

The Board also approved the following schedule of maximum rates that member commercial banks may pay on time deposits of $100,000 or more:

Maturity	*New maximum*	*Present maximum*
30–59 days	6.25	5.50
60–89 days	6.50	5.75
90–179 days	6.75	6.00
180 days to 1 year	7.00	6.25
1 year or more	7.50	6.25

In proposing to use new legislative authority for the first time, the Board said it is considering a 10 per cent reserve requirement on funds obtained by member banks through the issuance of commercial paper or similar obligations by bank affiliates, or by a parent holding company. Subsequently, the Act of December 23, 1969, explicitly authorized the Board to apply reserve requirements to such obligations. Accordingly, the Board has withheld action in applying interest rate ceilings to bank-related commercial paper while it is considering amending its rules to apply reserve requirements to the same type paper. Comments on this proposal should be received by the Board by February 16.

Commercial paper issued by bank holding companies or their affiliates has grown substantially during the last several months, totaling about $4 billion at the end of December compared with a total commercial paper market of about $33 billion.

Enclosed is a copy of the Board's Supplement, effective January 21, 1970, to Regulation Q, setting forth the maximum rates of interest payable on time and savings deposits. Comments on the proposed amendment of Regulation D, Reserves of Member Banks, should be submitted by February 16 and may be sent to our Bank Examinations Department.

Additional copies of this circular and its enclosure will be forwarded upon request.

Alfred Hayes,
President.

Board of Governors of the Federal Reserve System

SUPPLEMENT TO REGULATION Q

Effective January 21, 1970

SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

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 rates[1] of interest per annum payable by member banks of the Federal Reserve System on time and savings deposits:

(*a*) **Single maturity time deposits.**

(1) **Deposits of $100,000 or more.**—No member bank shall pay interest on any single maturity time deposit of $100,000 or more at a rate in excess of the applicable rate under the following schedule:

Maturity	*Maximum per cent*
30 – 59 days	6¼
60 – 89 days	6½
90 – 179 days	6¾
180 days or more but less than 1 year	7
1 year or more	7½

(2) **Deposits of less than $100,000.**—No member bank shall pay interest on any single maturity time deposit of less than $100,000 at a rate in excess of the applicable rate under the following schedule:

Maturity	*Maximum per cent*
30 days or more but less than 1 year	5
1 year or more but less than 2 years	5½
2 years or more	5¾

[1] The limitations on 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 the States of the United States and the District of Columbia.

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(*b*) **Multiple maturity time deposits.**

(1) **Deposits payable at intervals of at least 90 days.**—No member bank shall pay interest at a rate in excess of 5 per cent on a 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.

(2) **Deposits payable at intervals of less than 90 days.**—No member bank shall pay interest at a rate in excess of 4½ per cent on a multiple maturity time deposit that is payable less than 90 days after the date of deposit, or less than 90 days (but at least 30 days) after the last preceding date on which it might have been paid.

(*c*) **Savings deposits.**—No member bank shall pay interest at a rate in excess of 4½ per cent on any savings deposit.