

# FEDERAL RESERVE BANK OF NEW YORK

NEW YORK, N. Y. 10045

AREA CODE 212 732-5700

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## DETERMINATION OF INTEREST RATES AND COMPUTATION OF INTEREST ON TIME DEPOSITS

To All Member Banks in the  
Second Federal Reserve District:

Recent amendments to Regulation Q have resulted in numerous inquiries regarding the rate of interest that may be paid on certain certificates of deposit and the permissible methods of computing interest on such certificates. The purpose of this letter is to clarify those amendments.

1. Section 217.7 of Regulation Q (Supplement to Regulation Q) sets forth the maximum rates of interest payable by member banks on time and savings deposits. Confusion has arisen over the meaning of the term "year" as used in the maturity schedules appearing in that section. For purposes of determining the maximum rate of interest permissible on any certificate of deposit, the word "year" in each of those schedules means 365 days. Accordingly, a time deposit of less than 365 days does not qualify for the maximum rate permitted on certificates of "1 year or more."

2. Section 217.3(e) of Regulation Q provides that no member bank shall pay interest at the maximum rate based on more days than the number of days funds are actually on deposit. Thus, the numerator of the fraction used in computing interest should be the actual number of days the funds are on deposit and the denominator should be 365, the number of days in a year. The only exception to this rule is that where a deposit matures in 30 days, 90 days, 180 days, 360 days, or even multiples thereof, interest may be computed on the basis that 30 days equals one month or one twelfth of a year, that 90 days equals three months or one fourth of a year, that 180 days equals six months or one half of a year, or that 360 days equals twelve months or one year. Only in cases of time deposits with those specific maturities or even multiples thereof may the denominator used in computing interest be 360 rather than 365. It should be understood however that, whereas a bank may compute and pay interest on a one-year time deposit on the basis that 360 days equals one year, it may not

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additionally pay interest on such a deposit on a daily basis for the remaining five days.

3. Regulation Q does not prohibit member banks from computing and paying interest on a daily basis. However, where a deposit contract by its terms provides for paying interest daily, or compounding interest on a daily basis, the interest must be computed on the basis that one year is 365 days.

If you have any questions with respect to the matters covered herein, please call our Bank Examinations Department and ask for Extension 8220.

Alfred Hayes,  
President