FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 6578
July 20, 1970]

Interpretation of Regulation Q

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

Printed below is the text of an interpretation of Regulation Q, adopted by the Board of Governors of the Federal Reserve System on July 14, regarding the application of the regulation's Supplement, effective June 24, 1970, to certain short-term deposits. The interpretation will be published shortly in the *Federal Register* and in the August 1970 issue of the *Federal Reserve Bulletin* but is being sent to you now so that you might have prompt notice of its content.

Alfred Hayes, *President.*

[Reg. Q]

Part 217—PAYMENT OF INTEREST ON DEPOSITS

Maximum Rate Payable

§ 217.150 *Rate payable when higher rate is payable only on short-term deposits.*

The Board of Governors considers that the change in the Supplement to Regulation Q, effective June 24, 1970, which permits the payment of interest at any rate on single maturity time deposits of $100,000 or more with maturities of 30 to 89 days (while retaining the existing limitations on interest rates for such deposits maturing in 90 days or more), should be applied as follows:

(a) A member bank may amend the rate paid on a $100,000 certificate with an original maturity of 30 to 89 days issued before June 24, 1970, to pay any interest rate for the period subsequent to that date.

(b) A member bank may not amend the rate paid on a $100,000 certificate with an original maturity of 90 days or more to pay interest thereon for any period at a rate in excess of that specified in the Supplement for such a deposit with the particular maturity. Since such a deposit is not a 30 to 89 day deposit—the only kind of deposit free from interest rate control—it is not affected by the change in the regulation.

(c) A member bank may extend the maturity of a $100,000 certificate which originally provided for a maturity of 30 to 89 days, and pay interest at any rate during the extended term, if the new maturity is (1) later than the original maturity and (2) 30 to 89 days from the date of the extension.

(d) A member bank may not extend the term of a certificate originally issued for 90 days or more and pay interest on the deposit at a rate in excess of that applicable to the original deposit, even if the new maturity meets the conditions in the preceding paragraph. This does not apply, of course, to extension or renewal at maturity.

(e) A member bank may pay interest at any rate on a certificate originally issued in an amount less than $100,000 to which the depositor adds sufficient funds to increase the deposit to $100,000 or more, if and only if (1) the original maturity of the certificate is 30 to 89 days, and (2) the maturity date is 30 to 89 days after the date of the addition of such funds.

(f) Member banks may not make use of contracts for future deposits to permit a depositor to commit his funds for more than 89 days and obtain interest at a rate in excess of that applicable to a deposit with a longer maturity. For example, a bank and its depositor might agree on August 1, 1970 that the depositor will deposit, on that date and again on October 20 (80 days later), $100,000 for 80 days, on which the bank will pay interest at the rate of 10 per cent. Such an arrangement would be an effort to evade the purposes of the Regulation, which permits payment of rates of interest without legal restriction only on deposits of 30 to 89 days. The Board considers that the substance of such a transaction would be a deposit for 160 days. (If the depositor has an option, by contract or understanding, to withdraw funds at the end of the first 80 days or to leave them on deposit for the second 80 days, the deposit would be subject to the limitations of the Supplement to Regulation Q applicable to multiple maturity deposits payable at intervals of less than 90 days.) The Board's view would be the same even though the agreements—formal or informal—were entered into at different times, if they were so related as to be, in reality, a single arrangement that commits the bank and its depositor for 90 days or longer.

(12 U.S.C. 248(i). Interprets and applies 12 U.S.C. 371b.)

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