FEDERAL RESERVE BANK
OF NEW YORK

REGULATION Q

Interpretation of New Penalty Provisions

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

Following is the text of a statement issued July 12 by the Board of Governors of the Federal Reserve System:

In response to inquiries, the Board of Governors of the Federal Reserve System today provided the following interpretation, in the form of a question and answer, of the new penalty provisions that were part of its announcement of July 5 amending Regulation Q which governs the payment of interest on deposits:

Question: How do the new penalty provisions apply, and how do they relate to previous interpretations regarding amendment of time deposit agreements?

Answer: (a) As stated in the Board's announcement of July 5, 1973, the new penalty provisions amend that part of Regulation Q "that permits the payment of a time deposit prior to maturity." These provisions apply to withdrawals of principal and interest before maturity of new but not of previously existing time deposits. (The effective date of the new penalty provisions is July 5, 1973, although the rate changes were effective July 1.)

(b) The previously existing interpretations regarding amendment of a time deposit agreement — in contrast with withdrawal of principal and interest — still apply. One interpretation (12 CFR 217.122) permits without penalty the amendment of a deposit agreement so that funds left on deposit can bear interest up to the applicable new ceiling for periods after the effective date of the new ceiling. Another interpretation (12 CFR 217.102) concerning amendments providing for longer maturity specifies that such an amendment does not constitute payment before maturity. Here also, however, any applicable higher ceiling rate may be paid only during the period following the effective date of the new ceiling, that is, beginning July 1, 1973.

Additional copies of this circular will be furnished upon request.

ALFRED HAYES,
President.