

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7196]
July 26, 1973]

REGULATION Q

— Limits on “No Ceiling” Certificates of Deposit

— Proposed Amendment on Disclosure of Early Withdrawal Penalty

*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 imposed limits on the amount of “no-ceiling” consumer-type certificates of deposit that may be issued by member banks.

On July 5, the Board increased the maximum rates of interest that member banks may pay on savings and other consumer-type deposits, and established a new category of time deposit on which member banks may pay any rate of interest they desire so long as the deposit matures in four years or more and has a minimum denomination of \$1,000.

In order to provide for the introduction of these new savings instruments at a more orderly pace, the Board today limited the amount of such certificates that a bank may issue to 5 per cent of its total time and savings deposits. Any such certificate that a bank sells beyond that amount will be subject to the existing interest rate ceiling of 6.5 per cent that applies to time deposits maturing in 2-1/2 years or more.

Savings and loan associations that are members of the Federal Home Loan Bank System are also subject to a limitation of 5 per cent total savings capital on issuance of the new type certificates.

At the same time, the Board invited comment by August 27 on a proposal that would require member banks to:

1. Provide a clear and conspicuous notice in bank advertising that Federal law and regulation prohibit the bank from redeeming a time deposit before maturity unless some payment of interest is forfeited.
2. Give to each bank customer who is making a time deposit a disclosure statement specifying that the customer has contracted to keep funds on deposit for a fixed period of time and describing how the early withdrawal penalty applies to time deposits. This statement would contain arithmetical examples illustrating how the penalty provisions would work.

The text of the proposed amendment to Regulation Q, on the advertising and disclosure of the penalty for early withdrawal of time deposits, will be sent to you shortly. Comments thereon should be submitted by August 27 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.