

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7199]
July 31, 1973

EARLY WITHDRAWAL PENALTY UNDER REGULATION Q

—Amendment on Application of Penalty to Existing Time Deposit Contracts

—Proposed Amendment to Apply Penalty to Changes in Deposit Contracts

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

Following is the text of a statement issued July 24 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today invited comment on a proposed amendment to its Regulation Q that would apply the penalty provisions for early withdrawal of time deposits to changes in deposit contracts.

The proposal would apply the new early withdrawal rule to any change in a time deposit contract that results in an increase in interest rates or a change in maturity. At the present time, the early withdrawal rule does not apply to such conversions of time deposits. In effect, the proposed rule would treat conversions as withdrawals of funds.

Comment on the proposal should be received by the Board by August 13.

At the same time, the Board adopted an amendment to Regulation Q spelling out—as earlier announced by the Board on July 12—how the early withdrawal provisions apply to existing time deposit contracts.

The new early withdrawal rule (that went into effect July 5) states that a time deposit may be withdrawn before maturity only at a reduced rate of interest—namely, the regular passbook rate for the period held, minus three months. This rule applies, under the amendment adopted today, to the following types of contracts:

1. Time deposits entered into after July 5.
2. Contracts amended after July 5 to increase the rate of interest or to extend the maturity of the deposit.
3. Contracts renewed after July 5, whether by automatic renewal or otherwise.

All other time deposit contracts are subject to the old rule which states that a bank may pay a time deposit before maturity only in an emergency where it is necessary to prevent great hardship to the depositor. In such cases, the depositor forfeits accrued and unpaid interest for a period of up to 3 months.

Enclosed is a copy of the amendment to Regulation Q referred to above. The text of the proposed amendment is printed on the reverse side; comments thereon should be submitted by August 13 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

(OVER)

PROPOSED AMENDMENT TO REGULATION Q

Penalty for early withdrawals

The Board of Governors proposes to treat, as a payment of a time deposit before maturity, any amendment to the time deposit contract that results in either an increase in interest rate or a change in the maturity of the deposit. Such treatment would mean that the penalty for early withdrawals provided in Regulation Q would apply at the time of any such amendment to the contract.

To aid in the consideration of the matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received not later than August 13, 1973. Such material will be made available for inspection and copying upon request, except as pro-

vided in §261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board proposes to amend §217.4(d) of its Regulation Q (12 CFR Part 217) by adding a new sentence at the end thereof to read as follows:

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * *

(d) **Penalty for early withdrawals.** * * * Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a change in the maturity of the deposit constitutes a payment of the time deposit before maturity.

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

Effective July 24, 1973, the first sentence of section 217.4(d) is amended by adding a footnote (6a) at the end thereof. Section 217.4(d), as amended, reads as follows:

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * *

(d) **Penalty for early withdrawals.** Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently prescribed in §217.7 for a savings deposit: *Provided*, That the depositor shall forfeit three months of interest payable at such rate.^{6a} If, however, the amount withdrawn has remained on deposit for three months or less, all interest shall be forfeited. Where necessary to comply with the requirements of this paragraph, any interest already paid to or for the account of the depositor shall be deducted from the amount requested to be withdrawn.

^{6a} The provisions of this paragraph apply to all time deposit contracts entered into after July 5, 1973 and to all existing time deposit contracts that are extended or renewed (whether by automatic renewal or otherwise) after such date, and to all time deposit contracts that are amended after such date so as to increase the rate of interest paid. All contracts not subject to the provisions of this paragraph shall be subject to the restrictions of §217.4(d) in effect prior to July 5, 1973, which permitted payment of a time deposit before maturity only in an emergency where necessary to prevent great hardship to the depositor, and which required the forfeiture of accrued and unpaid interest for a period of not less than 3 months on the amount withdrawn if an amount equal to the amount withdrawn had been on deposit for 3 months or longer, and the forfeiture of all accrued and unpaid interest on the amount withdrawn if an amount equal to the amount withdrawn had been on deposit less than 3 months.