

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7202]
August 2, 1973

REVISED SUPPLEMENT AND PROPOSED AMENDMENT TO REGULATION Q

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

Our Circular No. 7196, dated July 26, 1973, contained the text of a statement, issued by the Board of Governors of the Federal Reserve System, announcing an amendment to Regulation Q that limits the amount of "no-ceiling" consumer-type certificates of deposit that may be issued by member banks. At the same time the Board announced a proposed amendment that would require member banks to (1) provide 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, and (2) give to each 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.

In submitting the amendment to the *Federal Register*, the Board made the following additional statement.

The Board of Governors has amended its Regulation Q so as to impose certain interest rate limitations on the receipt by a member bank of time deposits of \$1,000 or more with maturities of 4 years or more. There will be no interest rate ceiling on such deposits so long as the total amount of such deposits in the member bank does not exceed 5 per cent of the bank's total time and savings deposits. With respect to any such deposit that is received during the period when the outstanding amount of such deposits is at or above the 5 per cent level, the member bank shall not pay interest on such deposit at a rate in excess of 6½ per cent. This action was taken pursuant to the Board's authority under section 19 of the Federal Reserve Act to prescribe rules governing the payment of interest on deposits.

Enclosed is a copy of a revised Supplement to Regulation Q, reflecting the amendment that imposes limits on "no-ceiling" certificates of deposit. The Supplement, effective July 26, 1973, supersedes the Supplement to Regulation Q sent to you with our Circular No. 7197, dated July 31, 1973.

In addition, printed on the reverse side is the text of the proposed amendment to Regulation Q. Comments thereon should be submitted by August 27 and may be sent to our Regulations and Bank Analysis Department.

ALFRED HAYES,
President.

(OVER)

(Req. Q)

INTEREST ON DEPOSITS

Protection of Depositors

The Board of Governors proposes to amend its Regulation Q to provide that (1) any advertisement, announcement, or solicitation relating to interest paid on time deposits by member banks include clear and conspicuous notice that Federal law and regulation prohibit the bank from paying a time deposit before maturity unless certain interest is forfeited, and (2) the bank customer shall be given, at the time that a time deposit is made, a disclosure statement which makes it clear that the customer has contracted to leave his funds on deposit for the stated maturity and which describes how the early withdrawal penalty applies to time deposits in the bank, in the event the bank, notwithstanding the contract provisions, permits payment before maturity. This amendment to Regulation Q would be made pursuant to the Board's authority under section 19 of the Federal Reserve Act to prescribe rules governing the payment and advertisement of interest on deposits in member banks.

To aid in the consideration of the matter by the Board, interested persons are invited to submit relevant views, arguments, or data. Any such submission should be addressed in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20551, to be received no later than August 27, 1973. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

To implement its proposal, the Board proposes to amend its Regulation Q (12 CFR Part 217) in the following respects:

- 1. § 217.4 would be amended by redesignating para-

graph (e) as paragraph (f) and by adding a new paragraph (e) to read as follows:

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * *

(e) **Disclosure of early withdrawal penalty.** At the time a customer makes a time deposit in a member bank, the bank shall provide a written statement of the effect of the penalty prescribed in paragraph (d) of this section, which shall (1) state clearly that the customer has contracted to keep his funds on deposit for the stated maturity, and (2) describe fully and clearly how such penalty provisions apply to time deposits in such bank, in the event the bank, notwithstanding the contract provisions, permits payment before maturity. Such statements shall be expressly called to the attention of the customer and shall contain arithmetic examples illustrating how the penalty provisions apply to specific time deposit contracts.

2. § 217.6 would be amended by redesignating paragraphs (e), (f), and (g) as (f), (g), and (h) and by adding a new paragraph (e) to read as follows:

SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

* * *

(e) **Penalty for early withdrawals.** Any advertisement, announcement, or solicitation relating to interest paid by a member bank on time deposits shall include clear and conspicuous notice that Federal law and regulation prohibit the bank from paying a time deposit before maturity unless substantial interest is forfeited.

By order of the Board of Governors, July 26, 1973.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

Effective July 26, 1973

SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE
BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

Pursuant to the provisions of section 19 of the Federal Reserve Act and § 217.3, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates¹ of interest per annum payable by member banks of the Federal Reserve System on time and savings deposits:

(a) **Time deposits with no maximum rate prescribed.**

(1) There is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more.

(2) There is no maximum rate of interest presently prescribed on any time deposit of \$1,000 or more (but less than \$100,000) with a maturity of 4 years or more, so long as the total amount of such deposits does not exceed 5 per cent of the member bank's total time and

¹ The limitations on rates of interest payable by member banks of the Federal Reserve System on time and savings deposits, as prescribed herein, are not applicable to any deposit which is payable only at an office of a member bank located outside the States of the United States and the District of Columbia.

savings deposits that are subject to this section. With respect to any such deposit that is received during the period when the outstanding amount of such deposits is at or above the 5 per cent level, the member bank shall not pay interest on such deposit at a rate in excess of 6½ per cent.

(b) **Time deposits with maximum rates prescribed.** Except as provided in paragraph (a)³, no member bank shall pay interest on any time deposit at a rate in excess of the applicable rate under the following schedule:

<i>Maturity</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5
90 days or more but less than 1 year	5½
1 year or more but less than 30 months	6
30 months or more	6½

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5 per cent on any savings deposit.