

FEDERAL RESERVE BANK  
OF NEW YORK

Circular No. 7219  
August 23, 1973

AMENDMENT TO REGULATION Q

Early Withdrawal Penalty Applicable to Certain  
Changes in Time Deposit Contracts

*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 announced today an amendment to Regulation Q, effective September 10. Regulation Q deals with the payment of interest on deposits at Federal Reserve member banks.

This action defines any amendment to a time deposit contract that results in an increase in the interest rate, or a change in the maturity of the deposit, as a withdrawal of funds subject to penalty.

The amendment was proposed by the Board July 24. It was adopted after consideration of comment received and following consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board.

The amendment to Regulation Q would treat any change in a time deposit contract--generally, certificates of deposit--that results in an increase in the rate of interest to be paid, or changes the maturity of the deposit, as a withdrawal before maturity. The penalty for early withdrawal of deposits would therefore apply.

The early withdrawal penalty differs according to the date the time deposit contract was entered into:

For time deposit contracts entered into, or amended or renewed after July 5, 1973 (when a new schedule of maximum interest rates on time deposits went into effect) the penalty is in two parts, (a) a reduction of the rate of interest paid to the maximum passbook rate for the entire time the deposit has been held, and (b) a loss of three months interest.

(Over)

For all other time deposits, the old penalty rule applies. This states that a bank may pay a time deposit before maturity only in an emergency where early withdrawal is necessary to prevent great hardship to the depositor, plus forfeiture of up to three months accrued, unpaid interest.

A copy of the amendment, effective September 10, 1973, to Regulation Q will be sent to you shortly.

Alfred Hayes,  
*President.*