

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7221]  
August 27, 1973]

Text of Amendment to Regulation Q  
Effective September 10, 1973

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

Our Circular No. 7219, dated August 23, 1973, contained the text of a statement, issued by the Board of Governors of the Federal Reserve System, announcing an amendment to its Regulation Q. The amendment, effective September 10, 1973, applies the penalty provisions for early withdrawal of time deposits to changes in time deposit contracts that result in an increase in interest rates or a change in maturity.

In submitting the amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

On July 24, 1973, the Board of Governors invited public comments to be submitted by August 13, 1973, on a proposed amendment to its Regulation Q that would 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 (38 *Federal Register* 20108). Such treatment would mean that the penalty for early withdrawals, provided in §217.4(d) of Regulation Q, would apply at the time of any such amendment to the contract.

After consideration of all comments received, the Board has decided to adopt the proposal. At the same time, the Board decided to revoke its interpretations of Regulation Q published at 12 CFR 217.102, 217.122, and 217.123.

Enclosed is a copy of the amendment. Two of the revoked interpretations of Regulation Q referred to in the above statement are discussed in our Circular No. 7184, dated July 13, 1973; the other revoked interpretation—12 CFR 217.123—has been published in the *Federal Reserve Bulletin* (1962 *Bulletin* 8) and in the *Published Interpretations of the Board of Governors of the Federal Reserve System* (§ 3346).

ALFRED HAYES,  
*President.*

# Board of Governors of the Federal Reserve System

## INTEREST ON DEPOSITS

### AMENDMENT TO REGULATION Q

Effective September 10, 1973, section 217.4(d) is amended by adding a new sentence at the end thereof. Section 217.4(d), as amended, reads as follows:

#### SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

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(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.<sup>6a</sup> 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. 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.

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<sup>6a</sup> 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.