

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7232]
[September 13, 1973]

AMENDMENTS TO REGULATION Q
Advertising and 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 September 12 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today an amendment to its Regulation Q relating to disclosure of the penalty provision for early withdrawal of time deposits. Regulation Q deals with the payment of interest on deposits at Federal Reserve member banks.

The amendment, which goes into effect on September 18, will require member banks to:

1. Disclose in advertising of interest paid on time deposits that Federal law and regulation prohibit the payment of a time deposit prior to maturity unless substantial interest is forfeited. The following language is suggested for this statement:

"Federal law and regulation prohibit the payment of a time deposit prior to maturity unless three months of the interest thereon is forfeited and interest on the amount withdrawn is reduced to the passbook rate."

For radio or television commercials, the following language is suggested:

"Substantial interest penalty is required for early withdrawal."

2. Give to each bank customer who enters into a time deposit contract a written 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 the event the bank permits payment before maturity.

The early withdrawal penalty subject to the disclosure provision is in two parts—(a) a reduction of the rate of interest paid to the maximum permissible passbook rate for the period the deposit is held, and (b) a loss of three months' interest.

The amendment is substantially the same as that proposed for public comment on July 26. Some technical changes have been made in light of comment received.

Enclosed is a copy of the amendments, effective September 18, to Regulation Q. Additional copies of this circular and its enclosure will be furnished upon request.

ALFRED HAYES,
President.

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q

Effective September 18, 1973, sections 217.4 and 217.6 are amended as follows:

1. Section 217.4 is amended by redesignating paragraph (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 depositor enters into a time deposit contract with 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.

2. Section 217.6 is 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

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(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 allowing payment of a time deposit before maturity unless substantial interest is forfeited. Such notice may state that,

“Federal law and regulation prohibit the payment of a time deposit prior to maturity unless three months of the interest thereon is forfeited and interest on the amount withdrawn is reduced to the passbook rate.”

With respect to any advertisement, announcement, or solicitation made by television or radio, the required notice of penalty may be stated in a form such as “Substantial interest penalty is required for early withdrawal.”

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