FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7648
June 5, 1975]

AMENDMENTS TO REGULATION Q

—Payment of Time Deposits Before Maturity

—Notice of Maturity

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

Following is the text of a statement issued June 4 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today two amendments to its Regulation Q (Interest on Deposits) that will provide greater convenience for banking customers.

The changes will:

1. Permit member banks to redeem a time deposit before maturity without penalty in case of death of the depositor or co-depositor. This amendment is effective immediately. Present rules permit payment of a time deposit before maturity only if a substantial interest penalty is imposed—namely the loss of three months' interest and the payment of interest on the withdrawn funds at the passbook rate.

2. Effective September 1, require member banks to print or stamp a conspicuous statement on the face of a time deposit that no interest will be paid after the maturity date. The statement must provide the renewal terms in the case of an automatically renewable time deposit.

At the same time, the Board urged member banks to mail notices to their customers of the impending maturity of a time deposit. The Board said a mailed notice is most effective when it is received by the customer about 30 days prior to the maturity date. The Board said a mailed notice is particularly desirable when the time deposit has an initial maturity greater than one year.

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

Payment of time deposits before maturity

On April 4, 1975, the Board invited public comments to be submitted by May 5, 1975, on a proposed amendment to its Regulation Q (Interest on Deposits) that would permit member banks to pay time deposits before maturity without imposing an interest penalty in cases where the owner of the time deposit has died. (40 *Federal Register* 16685.)

As proposed, the amendment would have permitted member banks to pay funds in a time deposit account before maturity without imposing the interest penalty required by section 217.4(d) of Regulation Q only in situations where the deceased depositor was the sole legal and beneficial owner of the time deposit account. After consideration of all comments received, the Board has decided to adopt the amendment in a slightly expanded and modified form to permit member banks to pay a time deposit before maturity without penalty after the death of any person whose name appears (alone or with other persons) on the time deposit passbook or certificate of deposit and who, therefore, possesses a legal or equitable ownership interest in the account.

In announcing the proposed amendment for comment, the Board stated that the purpose of the interest penalty rule is to preserve the distinction between demand and time accounts by preventing time accounts from being used as essentially demand or transaction accounts, thus enforcing the Federal Reserve Act's prohibition of payment of interest on demand deposits and of the payment of time deposits before maturity. The Board has determined that since the amendment will apply only in cases where a depositor has died, it is consistent with the Federal Reserve Act and with existing regulations.

(OVER)

After review and consideration of all comments received, pursuant to its authority under section 19(j) of the Federal Reserve Act (12 U.S.C. 371b), the Board of Governors has decided to adopt the amendment in a modified form. The effective date of this amendment has been delayed for less than 30 days because the amendment relieves a present restriction and, therefore, delay would serve no useful purpose.

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Notice of maturity

On April 4, 1975, the Board invited public comments to be submitted by May 5, 1975, on a proposed amendment to its Regulation Q which would require member banks to notify owners of time deposits that, upon maturity, their time deposits will become demand deposits on which no interest may be paid. Under the proposed amendment, member banks also would be required to notify owners of automatically renewable time deposits that their deposits will be renewed at maturity unless the owner gives the bank other instructions. (40 *Federal Register* 16684.) The Board proposed that member banks provide such notice by printing or stamping a conspicuous statement on all certificates or time deposit passbooks. In addition, the Board invited public comment on a possible requirement that member banks mail a notice to the depositor's last known address on a date which would provide the depositor with sufficient opportunity to communicate his or her instructions to the bank.

After review and consideration of all comments received, the Board has decided to adopt the amendment in the form proposed.

In announcing the proposed amendment for comment, the Board expressed the opinion that a conspicuous statement printed or stamped on the certificate or passbook will serve as adequate notice to depositors. Several banks that commented on the proposed amendment indicated that they customarily mail information regarding maturity and renewal of time deposits to their customers shortly before the maturity date or enclose such information with the depositor's monthly statement or interest check. The Board encourages these banks to continue mailing such notice to their customers and urges all member banks to consider initiating the practice of mailing a notice to their customers in addition to providing the notice required by this amendment. The Board believes that a mailed notice is most effective when it is received by the customer approximately 30 days prior to the maturity date. The Board considers a mailed notice particularly desirable when the time deposit has an initial maturity greater than one year.

After review and consideration of all comments received, pursuant to its authority under section 19(j) of the Federal Reserve Act (12 U.S.C. 371b), the Board has decided to adopt the amendment in the form proposed. The effective date of the amendment has been delayed until September 1, 1975, to enable member banks to comply with the requirement of the amendment.

Enclosed is a copy of the amendments to Regulation Q. Any questions regarding this matter may be addressed to our Bank Regulations Department. Additional copies will be furnished upon request.

Alfred Hayes,
President.

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q

1. Effective June 5, 1975, section 217.4(d) is amended to read 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. 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. However, upon the death of any person whose name appears on the time deposit passbook or certificate, a member bank may pay such time deposit before maturity without a reduction or forfeiture of interest as prescribed by this paragraph.[6a] 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. *Provided further,* That Investment Certificates issued in negotiable form by a member bank pursuant to subpart 3 of § 217.7(b) may not be paid before maturity. This provision does not prevent a member bank from arranging the sale or purchase of such a certificate on behalf of the holder or prospective purchaser of a certificate issued under that subpart. A member bank may not, however, repurchase such certificates for its own account.

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.

2. Effective September 1, 1975, section 217.3(f) is amended by adding the following sentence to the end thereof:

SECTION 217.3—INTEREST ON TIME AND SAVINGS DEPOSITS

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(f) * * * On each certificate, passbook, or other document representing a time deposit, the bank shall have printed or stamped a conspicuous statement indicating that no interest will be paid on the deposit after the maturity date or, in the case of a time deposit that is automatically renewable, a conspicuous statement indicating that the contract will be renewed automatically upon maturity, and indicating the terms of such renewal.

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