

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8347
May 18, 1978

**COPY OF AMENDMENTS TO REGULATION Q
Two New Types of Time Certificates**

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

As indicated in our Circular No. 8344, dated May 11, 1978, the Board of Governors of the Federal Reserve System has amended the Supplement to its Regulation Q, "Interest on Deposits," to authorize member banks to offer two new categories of time deposits--"money market certificates" and long-term certificates with maturities of eight years or more. The amendments are effective June 1, 1978.

Enclosed is a copy of the amendments to Regulation Q. Any questions regarding the amendments may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5919).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q

(SUPPLEMENT)

(effective June 1, 1978)

Maximum Rates of Interest Payable

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final Rule.

SUMMARY: The Board has amended its regulations to authorize member banks to offer to depositors two new categories of time deposits. The first new category permits member banks to pay interest at a maximum ceiling rate up to $7\frac{3}{4}$ per cent on time deposits of \$1,000 or more with maturities of eight years or more. The second new category established by the Board authorizes member banks to pay interest on nonnegotiable time deposits of \$10,000 or more with maturities of six months (26 weeks) at a maximum rate equal to the discount yield on the most recently issued six-month United States Treasury bills (auction average).

EFFECTIVE DATE: June 1, 1978.

FOR FURTHER INFORMATION, CONTACT: Allen L. Raiken, Associate General Counsel, (202-452-3625) or Gilbert T. Schwartz, Senior Attorney, (202-452-3623) Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: Effective June 1, 1978, the Board has amended Regulation Q to establish two new categories of time deposits. Under the provisions of the first new deposit category, member banks will be permitted to pay interest to depositors at a maximum rate of $7\frac{3}{4}$ per cent on deposits of \$1,000 or more maturing in eight or more years. This new deposit category should enable savers to obtain higher rates on their funds.

The second new deposit category established by the Board authorizes member banks to pay interest on nonnegotiable time deposits of \$10,000 or more with maturities of six months (26 weeks) at a maximum rate equal to the discount yield on the most recently issued six-month United States Treasury bills (auction average). United States Treasury bills matur-

ing in six months (26 weeks) are auctioned weekly by the Treasury Department, normally on Monday, and are issued three business days later, normally on Thursday. Beginning on the date the six-month United States Treasury bills are issued (normally on Thursday), member banks may pay interest on deposits of \$10,000 or more maturing in six months at a rate not more than the auction average rate (discount basis) established for such bills and may continue to pay that rate for new deposits until new six-month United States Treasury bills are issued, at which time the rate paid on such bills becomes the ceiling rate for new deposits. The six-month United States Treasury bill rate is published widely in many newspapers throughout the country.

The deposits must be issued in nonnegotiable form and must possess a maturity of six months (26 weeks). Maturities of more than six months are not permitted. During the six months the deposit remains outstanding, the rate paid by member banks may not exceed the ceiling rate in effect on the date of deposit. If such deposits are renewed, automatically or otherwise, the maximum rate that may be paid may not exceed the six-month Treasury bill rate (discount basis) in effect at the time of renewal of the deposits.

Member banks will be permitted to pay up to the average auction rate paid (discount basis). Should a member bank desire to round off the ceiling rate, such rate may only be rounded down. For example, if the auction average rate for six month Treasury bills is 6.4638 per cent on a discount basis, a member bank may round the rate to 6.463 per cent, 6.46 per cent or 6.4 per cent. The rate may not be rounded up. However, in accordance with § 217.3 of Regulation Q, in ascertaining the rate of interest that may be paid, the effects of compounding of interest may be disregarded and interest may be computed in accordance with any of the methods authorized by § 217.3(e) of Regulation Q.

In accordance with § 217.4(d) of Regulation Q (12 CFR 217.4(d)), if the deposit, or any

For this Regulation to be complete, retain:

- 1) Regulation Q pamphlet, effective December 4, 1975.
- 2) Amendments effective March 1, 1976, July 26, 1976, November 8, 1976, March 24, 1977, July 6, 1977, November 23, 1977, December 1, 1977, July 6, 1978, and November 1, 1978.
- 3) Supplement effective December 4, 1975.
- 4) This slip sheet.

portion, is paid before maturity, the member bank may pay interest on the amount withdrawn at a rate not to exceed that prescribed for savings deposits (currently 5 per cent) and, in addition, a forfeiture of three months interest at such rate is required. If the amount withdrawn has been on deposit for three months or less, all interest shall be forfeited. All member banks, however, are permitted to lend on the collateral of their time deposits so long as the rate charged for the loan is at least one per cent higher than the rate being paid on the deposit pledged.

Existing provisions of Regulation Q provide that member banks may pay interest on governmental unit time deposits under \$100,000 with maturities of 30 days or more (12 CFR 217.7(d)) and Individual Retirement Account and Keogh (H.R. 10) Plan deposits of less than \$100,000 with maturities of three years or more (12 CFR 217.7(e)) at a rate not in excess of the highest of any of the permissible rates that can be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank, or savings and loan association. Since the Federal Home Loan Bank Board and the Federal Deposit Insurance Corporation are taking action to establish a new category of time deposit for Federally insured savings and loan associations and mutual savings banks at a ceiling rate of 8 per cent, member banks may pay 8 per cent on governmental unit time deposits and IRA/Keogh time deposits with three year maturities. The higher 8 per cent may be paid only on new time deposits or additional funds deposited to existing accounts. Rates paid by member banks on funds currently on deposit in governmental unit and IRA/Keogh time deposits may not be increased prior to the maturity of such funds. The maximum rates that may be paid on governmental unit and IRA/Keogh time deposits will not be determined by the ceiling rates established for the new six-month \$10,000 deposit category whose ceiling rate is associated with the six month Treasury bill rate.

The Board's actions were taken at this time, after consultation with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the United States Department of the Treasury, in order to increase returns for savers by providing deposit categories that are competitive with interest rates available in the market on instruments possessing similar characteristics. Creation of the new deposit categories at this time should increase the flow of mortgage credit and assist the housing market. In order to facilitate the achievement of these objectives as rapidly as possible, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to these actions would be contrary to the public interest and that good cause exists for making the amendments effective in less than 30 days.

Text of Amendment

Pursuant to its authority under § 19(j) of the Federal Reserve Act (12 U.S.C. § 371b),

effective June 1, 1978, the Board amends § 217.7 of Regulation Q (12 CFR 217.7) as follows:

SECTION 217.7 (SUPPLEMENT TO REGULATION Q)—MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

* * *

(b) *Time deposits of less than \$100,000.*

* * *

(4) Member banks may pay interest on any time deposit of \$1,000 or more, with a maturity of eight years or more, at a rate not to exceed 7 $\frac{3}{4}$ per cent.²

* * *

(d) *Governmental unit time deposits of less than \$100,000.* Except as provided in paragraphs (a) and (f), no member bank shall pay interest on any time deposit which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, the United States, any State of the United States, or any county, municipality, or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof, at a rate in excess of the highest of any of the permissible rates that can be paid on time deposits under \$100,000 with maturities in excess of six months (26 weeks) by any Federally insured commercial bank, mutual savings bank or savings and loan association.³

(e) *Individual Retirement Account and Keogh (H.R. 10) Plan deposits of less than \$100,000.* Except as provided in paragraph (a), a member bank may pay interest on any time deposit with a maturity of three years or more that consists of funds deposited to the credit of, or in which the entire beneficial interest is held by, an individual pursuant to an Individual Retirement Account agreement or Keogh (H.R. 10) Plan established pursuant to 26 U.S.C. (I.R.C. 1954) §§ 408, 401, at a rate not in excess of the highest of any of the permissible rates that can be paid on time deposits under \$100,000 with maturities in excess of six months (26 weeks) by any Federally insured commercial bank, mutual savings bank, or savings and loan association.³

(f) *Variable rate time deposits of less than \$100,000.* Member banks may pay interest on any nonnegotiable time deposit of \$10,000 or more, with a maturity of six months (26 weeks), at a rate not to exceed the rate established (auction average on a discount basis) for United States Treasury bills with maturities of six months issued on or immediately prior to the date of deposit. Rounding such rate to the next higher rate is not permitted.

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³ The highest permissible rate is currently 8.00 per cent per annum (12 CFR 329.7 and 12 CFR 526.5).