

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 8569]
May 9, 1979]

PAYMENT OF INTEREST ON DEPOSITS

Temporary Suspensions of Early Withdrawal Penalty During Emergencies

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

The Board of Governors of the Federal Reserve System has temporarily suspended, through September 30, 1979, the Regulation Q penalty for the withdrawal of time deposits from member banks prior to maturity by depositors affected by the recent severe storms in the State of Iowa. The Board of Governors' action is retroactive to April 6, 1979.

In a related action, the Board of Governors amended its Rules Regarding Delegation of Authority to delegate to the Secretary of the Board authority to permit member banks to waive the Regulation Q penalty for early withdrawal of time deposits for depositors suffering emergency-related losses in areas declared an "emergency area" by the President. (Previously, this delegation to the Secretary had been limited to Presidentially declared major disasters.)

Enclosed are copies of the Board's Order regarding the Iowa ruling and of the amendment to the Board's Rules. Any questions regarding the Board's actions may be directed to our Regulations Division (Tel. No. 212-791-5914).

PAUL A. VOLCKER,
President.

Board of Governors of the Federal Reserve System

RULES REGARDING DELEGATION OF AUTHORITY

AMENDMENT

(effective April 26, 1979)

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: In order to expedite and facilitate the performance of certain of its functions, the Board of Governors has delegated to the Secretary of the Board authority to permit member banks to waive the penalty for early withdrawal of a time deposit in § 217.4(d) of Regulation Q for depositors suffering emergency-related losses in areas declared an emergency area by the President.

EFFECTIVE DATE: Immediately [April 26, 1979].

FOR FURTHER INFORMATION, CONTACT: Paul S. Pilecki, Attorney, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3281).

SUPPLEMENTARY INFORMATION: Section 217.4(d) of Regulation Q (12 C.F.R. § 217.4(d)) provides that where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently prescribed for a savings deposit and that the depositor shall forfeit three months of interest payable at such rate. The Board of Governors has amended its Rules Regarding Delegation of Authority to authorize the Secretary of the Board to permit member banks to waive the early withdrawal penalty in those situations in which the President of the United States, pursuant to section 301 of the Disaster Relief Act of 1974 (42 U.S.C. § 5141) and Executive Order No. 11795 of July 11, 1974, has designated an area an emergency area. The Board regards a Presidential declaration of an emer-

gency area as recognition by the Federal government that loss and hardship of major proportions has occurred and under such circumstances believes it appropriate to provide an additional measure of assistance to emergency victims by temporarily suspending the Regulation Q early withdrawal penalty. The Board previously has authorized the Secretary to permit member banks to waive the early withdrawal penalty in connection with Presidentially-declared major disasters. Pursuant to this delegation, a waiver of the early withdrawal penalty will be limited in effectiveness to depositors suffering emergency-related losses in a geographical area designated an emergency area by a Presidential declaration.

The provisions of § 553 of Title 5, United States Code, relating to notice and public participation and deferred effective date are not followed in connection with this amendment because the change involved therein is procedural in nature and does not constitute a substantive rule subject to the requirements of such section.

Effective April 26, 1979, paragraph 265.2(a) (18) is amended to read as follows:

SECTION 265.2—SPECIFIC FUNCTIONS DELEGATED TO BOARD EMPLOYEES AND FEDERAL RESERVE BANKS

* * *

(2) The Secretary of the Board (or, in the Secretary's absence, the Acting Secretary) is authorized:

* * *

(18) Under the provisions of section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b) and §§ 217.4(a) and (d) of Regulation Q

For these Rules to be complete, retain:

- 1) Pamphlet amended effective August 2, 1978.
- 2) Amendments effective October 19, 1978, January 1, 1979, and March 10, 1979.
- 3) This slip sheet.

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(OVER)

Board of Governors of the Federal Reserve System

REGULATION Q

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

Order Granting Temporary Suspension of Early Withdrawal Penalty

(Effective April 6, 1979 through September 30, 1979)

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Temporary suspension of the Regulation Q penalty normally imposed upon the withdrawal of funds from time deposits prior to maturity.

SUMMARY: The Board of Governors of the Federal Reserve System has suspended temporarily the Regulation Q penalty for the withdrawal of time deposits prior to maturity from member banks for depositors affected by the severe storms beginning on or about March 29, 1979, in the State of Iowa.

EFFECTIVE DATE: April 6, 1979.

FOR FURTHER INFORMATION CONTACT: Paul S. Pilecki, Attorney, Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551 (202-452-3281).

SUPPLEMENTARY INFORMATION: On April 6, 1979, pursuant to section 301 of the Disaster Relief Act of 1974 (42 U.S.C. § 5141) and Executive Order 11795 of July 11, 1974, the President, acting through the Administrator of the Federal Disaster Assistance Administration, designated the following counties of the State of Iowa an emergency area: Madison, Page, Taylor, Union and Warren. The Board regards the President's action as recognition by the Federal government that an emergency of major proportion has occurred. The President's designation enables victims of the disaster to qualify for special emergency financial assistance. The Board believes it appropriate to provide an additional measure of assistance to victims by temporarily suspending the Regulation Q early withdrawal penalty.¹ The Board's action permits a member bank,

wherever located, to pay a time deposit before maturity without imposing this penalty upon a showing that the depositor has suffered property or other financial loss in the emergency area as a result of the severe storms. A member bank should obtain from a depositor seeking to withdraw a time deposit pursuant to this action a signed statement describing fully the emergency-related loss. This statement should be approved and certified by an officer of the bank. This action will be retroactive to April 6, 1979, and will remain in effect until 12 midnight September 30, 1979.

Section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b) provides that no member bank shall pay any time deposit before maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board. The Board has determined it to be in the overriding public interest to suspend the penalty provision in § 217.4(d) of Regulation Q for the benefit of depositors suffering emergency-related losses within those geographical areas of the State of Iowa officially designated an emergency area by the President. The Board, in granting this temporary suspension, encourages member banks to permit penalty-free withdrawal before maturity of time deposits for depositors who have suffered emergency-related losses within the designated areas.

In view of the urgent need to provide immediate assistance to relieve the financial hardship being suffered by persons directly affected by the severe damage and destruction occasioned by the storms and tornadoes in the designated counties of Iowa, the Board finds that good cause exists for dispensing with notice and public participation referred to in section 553(b) of Title 5 of the United States Code with respect to this action and that public procedure with regard to this action would be contrary to the public interest. Because of the need to provide assistance as soon as possible and because the Board's action relieves a restriction, the Board finds that there is good cause to make the action effective immediately.

By order of the Board of Governors, April 26, 1979.

¹ Sec. 217.4(d) of Regulation Q provides that 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 for a savings deposit and that the depositor shall forfeit 3 months of interest payable at such rate.