FEDERAL RESERVE BANK OF NEW YORK

Circular No. 8583
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REGULATION Q

—Changes To Help Small Savers, Effective July 1
—Comments Invited on Other Proposed Changes

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

The Board of Governors of the Federal Reserve System, the Federal Home Loan Bank Board, and the Federal Deposit Insurance Corporation have issued the following joint announcement:

A series of regulatory changes that will help small savers obtain a higher return on their deposits was announced jointly today [*May 30*] by the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation and the Federal Reserve Board.

The measures, which will go into effect on July 1 for all Federally insured commercial banks, savings and loan associations and mutual savings banks, are:

1. An increase of one-quarter of one percentage point in the maximum rate of interest that commercial banks and thrift institutions may pay on passbook savings accounts. This will raise the ceiling for commercial banks to 5 ¼ per cent and for savings and loan associations and mutual savings banks to 5½ per cent. The ceiling rate on NOW accounts in New England and New York will remain at 5 per cent for all depository institutions.

2. A new savings certificate with a maturity of four years or more that will have a rate ceiling based on the yield for 4-year Government securities as determined each month by the Treasury Department. The ceiling for commercial banks will be 1¼ percentage points below the yield on 4-year securities while the ceiling for thrift institutions will be 1 percentage point below the Treasury yield. [*The issuing rate will apply throughout the life of the deposit.*]

3. Elimination of all requirements for minimum denominations on consumer-type time deposits except for the $10,000 minimum required for money market certificates. Institutions may set their own minimums if they desire.

4. A new early withdrawal penalty in all deposit categories for new certificates issued or renewed after July 1. If deposits mature in more than one year, the minimum penalty will be six months loss of interest. If the deposit matures in one year or less, the minimum penalty will be three months loss of interest. The present penalty of a loss of three months interest and payment of interest on the funds withdrawn at the passbook rate will continue to apply to all time deposits issued before July 1.

In announcing the improved opportunities for small savers, the agencies said they would plan to consult toward the end of this year to determine whether further adjustments in interest rate ceilings would be appropriate.

The small saver proposals, which were issued on April 3 by the regulators, drew more than 3,000 responses. Today's actions were announced after consultation among the agencies and after consideration of the comments that were received.

The rate ceiling for the new certificate will change on the first calendar day of each month, based on the average 4-year yield on Treasury securities as determined and announced by the Treasury Department.

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This yield will be announced three business days prior to the first day of the month and will be based on the average daily yields for the preceding five business days. Thus, the ceiling rate that will be in effect beginning July 1 will be announced by the Treasury on June 27, based on the average daily yields on 4-year Treasury securities for June 20 through June 26.

If the certificate had been in effect on June 1, the nominal ceiling for June (based on the average four-year Treasury yield for May 21-25) would have been 7.85 per cent for commercial banks and 8.10 per cent for thrift institutions. The corresponding effective yields, including compounding, would be 8.28 per cent for banks and 8.56 per cent for thrifts. The new variable rate ceiling certificate does not replace the existing 4-, 6-, and 8-year fixed rate time deposits, whose ceilings will remain in effect.

In a related development, the agencies ruled that banks and savings and loan associations may accept deposits that have been pooled by depositors to reach a minimum denomination requirement, but the institutions may not solicit or promote pooled deposits in any way.

The regulatory agencies also requested comment through July 2 on the following items:

1. A proposal to subject repurchase agreements of less than $100,000 to the same interest rate ceilings as deposits of similar maturities. (The Bank Board has had a policy of prohibiting repurchase-type agreements to consumers, which it has reaffirmed.)
2. A proposal to liberalize the penalty for early withdrawal of deposits for all accounts in the event of the death of a depositor. The proposal would require an institution to redeem a time deposit without penalty in the event of the depositor's death, if requested to do so by an authorized representative. The provision is now discretionary on the part of the institution. Comment was requested specifically on whether the proposal, if adopted, should apply to all existing deposits or only to deposits issued after the date of adoption.

With regard to Federal credit unions, the National Credit Union Administration (NCUA) is not mandating specific maturities—which may range from 90 days on out—for its share certificate accounts (similar to CDs). However, in order to maintain consistency among financial institutions, the maximum rates payable on such certificates will be set at a rate comparable to that of savings and loan associations.

In addition, NCUA is making certificates of indebtedness subject to the same term and interest rate limitations as share certificates. The agency is also barring the issuance of certificates of indebtedness to natural persons who are not members of the issuing Federal credit union.

A copy of the amendments, effective July 1, to Regulation Q will be mailed to you shortly.

In addition, the text of the proposals referred to above will be mailed to all member banks in this District shortly. It will also be published in the *Federal Register*. Comments thereon should be submitted by July 2 and may be sent to our Consumer Affairs and Bank Regulations Department.

PAUL A. VOLCKER,
President.