

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 8709 ]  
December 19, 1979

CHANGES IN REGULATION Q

Including New 2½-Year Time Deposit Tied to Yields on Treasury Securities

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

Changes in Regulation Q, "Interest on Deposits," have been adopted, effective January 1, 1980, by the Board of Governors of the Federal Reserve System in consultation with the other Federal financial regulatory agencies. Following is the text of a joint statement announcing the actions by these agencies:

A series of regulatory moves designed to help the small saver — including a new 2½ year certificate tied to the yield on Treasury securities — was announced jointly today by the Federal Home Loan Bank Board, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the National Credit Union Administration.

The changes, which will go into effect January 1, will also increase the ability of federally insured depository institutions to compete for funds with market instruments which are not subject to interest rate ceilings.

Today's announcement represents a further adjustment of interest rate ceilings that began earlier this year. When announcing small-saver actions effective last July 1, the agencies said they planned to consult near the end of the year to determine whether further changes in ceilings would be appropriate.

The new measures are as follows:

1. Replace the existing 4-year floating-rate time deposit with a new floating rate certificate with a maturity of 2½ years or more tied to the yield on Treasury securities maturing in 2½ years. For thrift institutions (savings and loan associations and mutual savings banks), the ceiling rate will be 50 basis points below the 2½ year Treasury rate, while for banks the ceiling rate will be 75 basis points below the Treasury rate. Federal credit unions may offer the same variable ceiling rate as thrifts on share certificates of 90 days or more. There are no minimum deposit requirements and compounding of interest will be permitted.

The ceiling will be established monthly for new deposits based on the rate announced by the Treasury three business days before the beginning of each month. Recently, the yield on Treasury securities that mature in 2½ years has averaged approximately 11.20 percent. Thus, the comparable ceiling for thrift institutions, were the new certificate available, would be 10.70 percent and for banks, 10.45 percent. After compounding, the effective yield on this instrument would be 11.46 percent and 11.18 percent for thrifts and banks respectively. The ceiling rate that is established monthly will apply to all new deposits issued throughout the month. The ceiling on outstanding deposits of this type will not change during the life of the deposit.

The new certificate replaces the 4-year variable rate deposit that was established effective last July 1. All fixed rate ceilings remain in effect, however.

2. Increase by ¼ of a percentage point the ceiling on deposits maturing in 90 days to 1 year. The new nominal ceiling for commercial banks is 5¾ percent while thrifts may pay up to 6 percent.

3. Permit banks to pay the same rate as thrifts when IRA/Keogh and governmental unit funds are deposited in the new 2½-year or more certificates. Banks also may pay the same as thrifts on IRA/Keogh and governmental unit deposits of \$10,000 or more placed in 26-week money market certificates regardless of the level of the Treasury bill rate. However, the thrifts' differential on such certificates when the Treasury bill rate is below 9 percent continues to apply for other depositors of 26-week money market certificates.

The new actions were taken by the individual agencies after consultations required by law. The agencies also indicated that they plan to monitor future deposit flows among depository institutions on a continuing basis.

Printed on the following pages is the text of the Board's official notice explaining the changes in Regulation Q. In addition, enclosed is a copy of the Supplement to Regulation Q, effective January 1, 1980, which reflects these changes. Questions on this matter may be directed to our Regulations Division (Tel. No. 212-791-5914).

THOMAS M. TIMLEN,  
First Vice President.

## INTEREST ON DEPOSITS

(Reg. Q; Docket No. R-0267)

### Maximum Rates of Interest Payable

**AGENCY:** Board of Governors of the Federal Reserve System.

**ACTION:** Final Rule.

**SUMMARY:** The Board of Governors of the Federal Reserve System has adopted three amendments to Regulation Q. The first amendment creates a new time deposit category with a maturity of 2½ years or more. Member banks are authorized to pay interest on this new nonnegotiable time deposit at a ceiling rate of three quarters of one per cent below the average 2½ year yield for United States Treasury securities as determined monthly by the United States Treasury. No minimum denomination is required for this new deposit category. As part of this action, the Board is eliminating the four-year or more time deposit with a ceiling rate tied to the average yield on four-year United States Treasury securities which member banks were authorized to offer effective July 1, 1979. The second amendment increases the ceiling rate of interest payable by member banks on time deposits with maturities of 90 days or more but less than one year, from 5½ per cent to 5¾ per cent. The third amendment permits members to pay interest on Individual Retirement Account/Keogh (H.R. 10) Plan and governmental unit funds at the same rate permitted mutual savings banks and savings and loan associations when such funds are invested in 26-week \$10,000 money market time deposits or the new 2½ year time deposit. These actions are being taken to provide additional returns to savers.

**EFFECTIVE DATE:** January 1, 1980.

**FOR FURTHER INFORMATION CONTACT:** Gilbert T. Schwartz, Assistant General Counsel (202/452-3625) or Anthony F. Cole, Senior Attorney (202/452-3612), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

**SUPPLEMENTARY INFORMATION:** On May 30, 1979, the Board of Governors adopted amendments to Regulation Q designed to help small savers obtain a higher return on their deposits (44 FR 32646). These amendments included raising the savings deposit ceiling rate by one-quarter of one per cent to 5¼ per cent, creation of a new four-year or more time deposit whose ceiling rate is tied to the rate paid on four-year U.S. securities, elimination of minimum denomination requirements (except for the \$10,000 minimum required for the 26-week money market certificate), and reduction of the penalties for early withdrawal of time deposit funds. In announcing these actions, the Board stated that consideration would be given toward the end of this year to determine whether further adjustments in interest rate ceilings would be appropriate. After consultation with

the other Federal financial regulatory agencies, the Board has amended Regulation Q (12 CFR 217) to: (1) create a new time deposit category with a maturity of 2½ years or more and with a maximum ceiling rate of interest based on the average 2½ year yield on Treasury securities; (2) increase the ceiling rate of interest payable on time deposits with maturities of 90 days or more but less than one year from 5½ per cent to 5¾ per cent; and (3) permit member banks to pay interest on IRA/Keogh and governmental unit funds at the same rate permitted mutual savings banks and savings and loan associations when such funds are invested in 26-week \$10,000 money market time deposits or the new 2½ year time deposit. The Board believes that these amendments, in conjunction with those adopted by the other Federal financial regulatory agencies, will enable savers to obtain higher rates of return on their savings and will increase the flow of funds to the nation's depository institutions, as well as encourage individuals to save for their retirement.

#### I. 2½ year fixed rate, variable ceiling time deposit

Beginning January 1, 1980, member banks will be permitted to offer a nonnegotiable time deposit with a maturity of 2½ years or more at a ceiling rate tied to the average 2½ year yield on United States Treasury securities. The ceiling rate in effect during a particular month will apply to all newly issued time deposits of this category even if a member bank issues the new time deposit with maturities in excess of 2½ years. The ceiling rate for new deposits will be determined monthly, but the ceiling rate applicable to outstanding deposits will not change during the life of the deposit. Although no minimum denomination will be required, member banks are free to establish a minimum denomination requirement for this new category of deposit. The existing fixed ceiling time deposits with maturities of 2½, 4, 6 and 8 years or more at ceiling rates of 6½, 7¼, 7½ and 7¾ per cent, respectively, are not affected by this action and will remain in effect. As part of this action the Board is eliminating, effective January 1, 1980, the 4-year or more time deposit with a ceiling rate tied to the average yield on 4-year United States Treasury securities. Member banks were authorized to offer this deposit effective July 1, 1979 (12 CFR 217.7 (g)). However, outstanding deposits of this category are not affected by this action.

Beginning the first day of every month, a member bank will be permitted to pay interest on new deposits with maturities of 2½ years or more at a ceiling rate of three quarters of one per cent (75 basis points) below the average 2½ year yield for U.S. Treasury securities as announced by the Treasury. This ceiling rate will remain in effect for all instruments issued

during the month until the first day of the next month when a new ceiling rate will go into effect for instruments issued on or after that date. Member banks are permitted to compound and compute interest on this deposit in accordance with any of the methods authorized by section 217.3 of Regulation Q. The average 2½ year yield on U.S. Treasury securities will be announced three business days prior to the effective date (the first day of the month) and will represent an average of the 2½ year yields for the previous five business days.

Member banks will be permitted to pay interest on time deposits of this category which consist of funds deposited to the credit of, or in which the entire beneficial interest is held by, a governmental unit or an individual pursuant to an IRA agreement or Keogh (H.R. 10) Plan, at a ceiling rate equal to the ceiling rate payable on the same category of deposit by any Federally insured savings and loan association or mutual savings bank.

The Board believes that this action creating a shorter term time deposit instrument with a ceiling rate tied to market rates of interest will increase the amount of savings maintained by depositors. With respect to this new deposit category, member banks should maintain data such as rates paid and amounts issued in a manner that facilitates reporting to the Board.

## II. Ceiling rate on 90-day time deposits

Regulation Q currently provides that no member bank shall pay interest at a rate in excess of 5½ per cent on a time deposit with a maturity of 90 days or more but less than one year (12 CFR § 217.7(b)). This ceiling rate has been equal to the ceiling rate in effect for savings deposits at thrift institutions since July 1, 1979. Prior to the July 1 savings rate increase, the member bank 90-day time deposit ceiling rate was one-quarter of one percent higher than the maximum rate payable on savings deposits at thrifts.

Commercial banks historically have competed actively in the 90-day time deposit market and hold approximately 14 per cent of their small denomination time deposits in such accounts. In this regard, the agencies did not intend that their actions last July would affect the competitive balance between commercial banks and thrifts. Accordingly, the Board has amended Regulation Q to increase the maximum rate of interest payable by member banks on time deposits with maturities of more than 90 days but less than one year to 5¾ per cent, one-quarter of one per cent above the ceiling rate of interest payable on savings deposits by thrift institutions. This action will restore the pre-existing competitive balance and will enable savers to obtain higher returns on their funds. The new ceiling rate may be paid only on certificates of deposit entered into or renewed on or after January 1, 1980. However, for purposes of administrative convenience, beginning January 1 member banks may pay interest on all funds in 90-day to one-year time deposits, open accounts, at a rate of 5¾ per cent.

## III. IRA/Keogh (H.R. 10) Plan and governmental unit time deposits

The Board amended Regulation Q, effective July 6, 1977, to create a new category of IRA/Keogh Plan time deposit with a maturity of three years or more and no minimum denomination. Member banks are authorized to pay interest on such time deposits at a ceiling rate of 8 per cent, which is the highest fixed ceiling rate that may be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank, or savings and loan association. The Board's action was taken to accommodate the Congressional objective expressed in the Employee Retirement Income Security Act of 1974 (Pub. L. 93-406) of encouraging individuals to save for their retirement by enabling an IRA or Keogh Plan participant to obtain the highest possible return on retirement savings regardless of the type of depository institution selected by the depositor.

While this special category of deposit is available only for IRA and Keogh depositors, IRA and Keogh funds may be deposited in any form of deposit account, including the 26-week \$10,000 money market certificate, so long as the Regulation Q minimum maturity and minimum denomination requirements are satisfied. However, where an individual elects to deposit IRA and Keogh funds in a 26-week money market certificate, thrift institutions have a rate advantage over commercial banks in view of the existence of the differential in the ceiling rates payable on such accounts by thrifts and commercial banks when the Treasury bill rate is below 9 per cent. The Board regards the maintenance of this differential with respect to IRA or Keogh funds as inconsistent with the objectives of maximizing the total amount of earnings on retirement savings that Congress sought to encourage through establishment of IRA and Keogh programs. Since preferred tax and interest rate treatment was given to IRA/Keogh plans to encourage savings for retirement, and not to extend a competitive advantage for a particular class of financial institution, the Board has amended Regulation Q (12 CFR § 217.7(f)) to permit member banks to pay interest on new 26-week \$10,000 money market certificates which consist of IRA or Keogh funds at a ceiling rate equal to the ceiling rate payable on the 26-week money market certificate by any Federally insured savings and loan association or mutual savings bank regardless of the level of the Treasury bill rate. However, the terms of existing IRA/Keogh time deposits may not be modified until such deposits mature. (As discussed above, similar action is being taken with respect to the new 2½ year certificate.)

The Board amended Regulation Q, effective November 27, 1974, to create a new category of time deposit for funds of public units. Pursuant to section 217.7(d), member banks are authorized to 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, a governmental unit at a ceiling rate of 8 per cent, which is the highest fixed ceiling rate that may be paid on time deposits under \$100,000

by any Federally insured commercial bank, mutual savings bank or savings and loan association. This action was taken in light of the increase in 1974 in Federal deposit insurance to \$100,000 on governmental unit time deposits. The increased insurance made thrift institutions more competitive with commercial banks. The Board's action to permit member banks to pay interest on such funds at the same rates as thrifts, was intended to maintain the competitive balance among financial institutions, as well as to provide additional depository alternatives for governmental units.

While this special category of deposit is available only for governmental units, public funds may be deposited in any form of deposit account, including the 26-week \$10,000 money market certificate, so long as the Regulation Q minimum maturity and minimum denomination requirements are satisfied. However, where a public unit elects to deposit funds in a 26-week \$10,000 money market certificate, thrift institutions may have a rate advantage over commercial banks in view of the existence of the differential when the Treasury bill rate is below 9 per cent. The Board regards maintenance of the differential with respect to public unit time deposit funds as inconsistent with the objectives of maintaining competitive equality and maximizing depository alternatives

for governmental units. Accordingly, the Board also has amended Regulation Q (12 CFR § 217.7(f)) to permit member banks to pay interest on new 26-week \$10,000 money market certificates which consist of public funds at a ceiling rate equal to the ceiling rate payable on the 26-week money market certificate by any Federally insured savings and loan association or mutual savings bank. However, the terms of existing governmental unit time deposits may not be modified until such deposits mature. (As discussed above, similar action is being taken with respect to the new 2½ year certificate.)

The Board's actions were taken at this time after consultation with the other Federal financial institution regulatory agencies. In order to provide increased returns to savers 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 these amendments effective in less than thirty days.

These amendments are adopted pursuant to the Board's authority under section 19(j) of the Federal Reserve Act (12 U.S.C. § 371b) to prescribe limitations on the rates of interest that may be paid by member banks on time and savings deposits.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q

As amended effective January 1, 1980

SECTION 217.7 — MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

Pursuant to the provisions of Section 19 of the Federal Reserve Act and § 217.3 of this Part, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates<sup>1</sup> of interest per annum payable by member banks of the Federal Reserve System on time and savings deposits:

(a) **Time deposits of \$100,000 or more.** There is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more.

(b) **Fixed ceiling time deposits of less than \$100,000.** Except as provided in paragraphs (a), (d), (e), (f), and (g), no member bank shall pay interest on any time deposit at a rate in excess of the applicable rate under the following schedule:

<i>Maturity</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5¼
90 days or more but less than 1 year	5¾
1 year or more but less than 2½ years	6
2½ years or more but less than 4 years	6½
4 years or more but less than 6 years	7¼
6 years or more but less than 8 years	7½
8 years or more	7¾

<sup>1</sup> The limitation on rates of interest payable by member banks of the Federal Reserve System on time and savings deposits, as prescribed herein, are not applicable to any deposit which is payable only at an office of a member bank located outside the States of the United States and the District of Columbia.

(c) **Savings deposits.** No member bank shall pay interest at a rate in excess of 5¼ per cent on any savings deposit. Provided, however, that no member bank shall pay interest at a rate in excess of 5 per cent on any savings deposit that is subject to negotiable orders of withdrawal, the issuance of which is authorized by Federal law.

(d) **Governmental unit time deposits of less than \$100,000.** Except as provided in paragraphs (a), (f), and (g), 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 8 per cent.<sup>2</sup>

(e) **Individual Retirement Account and Keogh (H.R. 10) Plan deposits of less than \$100,000.** Except as provided in paragraphs (a) and (g), 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 8 per cent.<sup>2</sup>

(f) **26-week money market time deposits of less than \$100,000.** Except as provided in paragraphs (a), (b) and (d), a member bank may pay interest on any nonnegotiable time

<sup>2</sup> The ceiling rate on this category is the highest fixed ceiling rate that may be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank, or savings and loan association.

deposit of \$10,000 or more, with a maturity of 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 26 weeks issued on or immediately prior to the date of deposit. Rounding such rate to the next higher rate is not permitted. A member bank may not compound interest during the term of this deposit. A member bank may offer this category of time deposit to all depositors. However, a member bank may pay interest on any nonnegotiable time deposit of \$10,000 or more with a maturity of 26 weeks which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(1) 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; or

(2) 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 to exceed the ceiling rate payable on the same category of deposit by any Federally insured savings and loan association or mutual savings bank.

**(g) Time deposits of less than \$100,000 with maturities of 2½ years or more.** Except as provided in paragraphs (a), (b), (d), and

(e), a member bank may pay interest on any nonnegotiable time deposit with a maturity of 2½ years or more that is issued on or after the first day of each month at a rate not to exceed three quarters of one per cent below the average 2½ year yield for United States Treasury securities as determined and announced by the United States Department of the Treasury three business days prior to the first day of such month. The average 2½ year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. A member bank may offer this category of time deposit to all depositors. However, a member bank may pay interest on any nonnegotiable time deposit with a maturity of 2½ years or more which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(1) 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; or

(2) 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 to exceed the ceiling rate payable on the same category of deposit by any Federally insured savings and loan association or mutual savings bank.