FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8763
February 27, 1980

AMENDMENT TO REGULATION Q
Limitation on the Rate of Interest That May Be Paid on 2-1/2-Year Fixed Rate Variable Ceiling Time Deposits

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

The following statement has been issued today announcing action by the Federal agencies regulating depository institutions imposing a limitation on the rate of interest that may be paid by depository institutions on 2-1/2-year fixed rate variable ceiling time deposits:

> A limitation on the rate of interest that may be paid on 2-1/2-year variable ceiling time deposits was announced today by the Federal Reserve Board, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board, and the National Credit Union Administration.
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> The action, placing a temporary ceiling of 12 percent for savings and loan associations, mutual savings banks and credit unions, and 11-3/4 percent for commercial banks, is effective March 1. Compounding of interest is permitted and the new ceiling will result in an effective yield for 2-1/2-year instruments of 12.94 percent for thrifts and 12.65 percent for commercial banks.
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> The 2-1/2-year certificate has been offered since January 1 with a ceiling rate tied to the yield on U.S. Treasury securities of similar maturity. Under the change, the ceiling rate on 2-1/2-year certificates will be the lower of the new fixed ceiling or the rate determined by the variable formula that has been in effect since January. Ceilings on all other deposit categories remain unchanged.
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> Under the variable rate formula, savings and loans and mutual savings banks had been able to pay 50 basis points below the yield on Treasury securities maturing in 2-1/2 years. The ceiling rate for banks had been 75 basis points below the Treasury yield. Federal credit unions had been able to offer the same variable rate as thrifts on share certificates of 90 days or more.
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> The variable ceiling was established monthly, based on the rate announced by the Treasury three business days before the beginning of each month. The yield on Treasury securities that mature in 2-1/2 years averaged about 14 percent over the five business days ending February 26. This would have meant a ceiling rate during March for this certificate of 13-1/2 percent for thrift institutions and 13-1/4 percent for commercial banks which, with compounding, would have permitted effective yields of 14.67 percent and 14.47 percent, respectively.
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> This action is necessary because the agencies believe that a sudden increase of this magnitude would be disruptive to many financial institutions, particularly those holding a high proportion of longer-term fixed rate loans. The agencies will continue to monitor conditions in the financial markets closely and will be prepared to make whatever future adjustments in the ceiling rate that may be appropriate.

The Board of Governors has amended its Regulation Q, "Interest on Deposits," putting this change into effect. A copy of the amendment, which is effective March 1, will be mailed to you shortly.

THOMAS M. TIMLEN,
First Vice President.