

**FEDERAL RESERVE BANK  
OF NEW YORK**

[Circular No. 8840  
May 29, 1980]

**DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE  
Adoption of Rules Relating to Time Deposits**

*To All Commercial Banks, Mutual Savings Banks,  
and Savings and Loan Associations in the Second Federal Reserve District:*

Yesterday the Depository Institutions Deregulation Committee (DIDC) adopted rules relating to rates of interest payable on certain small savers' certificates and on money market certificates, and other rules regarding early withdrawal penalties applicable to time deposits. Following is a brief description of the new rules:

*2½-year fixed rate, variable ceiling time deposits*

Effective June 2, 1980, a minimum rate of 9.25 percent payable by commercial banks, and 9.50 percent payable by thrift institutions, has been established with regard to 2½-year fixed rate, variable ceiling time deposits. The present ceiling rates of 11.75 percent for commercial banks and 12.00 percent for thrift institutions remain unchanged. Between the minimum and the ceiling, commercial banks may pay a rate equal to the 2½-year Treasury rate less 25 basis points, while thrift institutions may pay a rate exactly equal to the 2½-year Treasury rate. The Treasury rate will be set every two weeks, rather than monthly as is currently the practice, and will be announced on Monday to be effective the following Thursday. With continuous compounding, the effective yield on the 9.25 percent rate for commercial banks is 9.83 percent, and the effective yield on the 9.50 percent rate for thrift institutions is 10.11 percent. (Institutions may pay less than the ceiling rates.)

*Money market certificates*

Effective June 5, 1980, based upon the six-month Treasury bill auction to be held June 2, 1980, the following schedule of rates has been established for six-month money market certificates:

<u>Bill Rate</u>	<u>Commercial Bank Ceiling</u>	<u>Thrift Ceiling</u>	<u>Differential</u>
8.75% and above	bill rate + 25 basis points (bp)	bill rate + 25 bp	0
8.50% to 8.75%	bill rate + 25 bp	9.00%	0 to 25 bp
7.50% to 8.50%	bill rate + 25 bp	bill rate + 50 bp	25 bp
7.25% to 7.50%	7.75%	bill rate + 50 bp	25 bp to 0
below 7.25%	7.75%	7.75%	0

(Over)



*Early withdrawal penalties*

For time deposits with maturities of one year or less, the minimum penalty for early withdrawal will be a forfeiture of three months' simple, nominal interest. For time deposits with maturities of over one year, the minimum penalty will be six months' simple, nominal interest. The new rule requires financial institutions to reduce the principal amount of the deposit in the event the forfeiture exceeds the interest earned up to the date of withdrawal. The rule is effective June 2, 1980.

These DIDC rules, to the extent indicated by their content, supersede the related portions of Regulation Q ("Interest on Deposits") of the Board of Governors of the Federal Reserve System. More specific information regarding the new rules will be sent to you as soon as it is available. Some time later, the Board of Governors will issue technical amendments to Regulation Q to conform the regulation to the DIDC's rules, and these amendments also will be sent to you.

Questions regarding the DIDC's new rules may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,  
*President.*