

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8851
June 16, 1980

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
Technical Amendment to Rule Regarding Early Withdrawal Penalty

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

The Depository Institutions Deregulation Committee has announced a technical amendment to a rule adopted by the DIDC on May 28 regarding the penalty for early withdrawal of funds from time accounts. The text of that rule was mailed to you on June 5. Following is the text of the DIDC's statement announcing the technical amendment:

The Depository Institutions Deregulation Committee today [June 6] adopted a technical amendment to its rule announced last week regarding the penalty for early withdrawal of funds from time accounts.

The rule adopted by the Committee requires in part forfeiture of an amount equal to three months of interest where funds are withdrawn prior to the maturity of a time deposit of one year original maturity or less even though that much interest may not have been earned at the time of the withdrawal.

The technical amendment announced today clarifies the intent of the Committee that, with respect to time deposits with a maturity of less than three months, the minimum required penalty for early withdrawal may not exceed interest that could have been earned if the deposit were held to maturity. [For example, if a 60-day time deposit were withdrawn after 45 days, the minimum penalty for early withdrawal would be 60 days of simple, nominal interest.]

Enclosed is a copy of the text of the technical amendment. Questions regarding the amendment may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

TITLE 12--BANKS AND BANKING

CHAPTER XII--DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[Docket No. D-0009]

PART 1204--INTEREST ON DEPOSITS

Penalty for Early Withdrawals of Time Deposits Funds

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Technical amendment to final rule.

SUMMARY: This technical amendment clarifies the application of the early withdrawal penalty rule adopted by the Depository Institutions Deregulation Committee ("Committee") on May 28, 1980, to withdrawals from time deposits with original maturities of less than three months. The rule provides that where a time deposit with an original maturity of less than three months, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to the amount of interest that could have been earned on the amount withdrawn at the nominal contract rate if the funds had remained on deposit until maturity.

EFFECTIVE DATE: June 2, 1980.

FOR FURTHER INFORMATION CONTACT: John Hall, Attorney, Federal Home Loan Bank Board (202/377-6466), Debra Chong, Attorney, Office of the Comptroller of the Currency (202/447-1632), F. Douglas Birdzell, Senior Attorney, Federal Deposit Insurance Corporation (202/389-4324), Anthony F. Cole, Senior Attorney, Federal Reserve Board (202/452-3612), or Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: On May 28, 1980, the Committee adopted a final rule, effective June 2, 1980, concerning the penalty for early withdrawals of time deposit funds. The rule provides for a minimum required penalty of a forfeiture of an amount equal to three months of interest earned or that could have been earned, at the nominal contract rate, on the funds withdrawn where the time deposit has an original maturity of one year or less and six months of interest earned or that could have been earned, at the nominal contract rate, on the funds withdrawn where the time deposit has an original maturity of more than one year, regardless of the length of time the funds have remained on deposit.

This amendment is intended to clarify the intent of the Committee that where funds are withdrawn prior to maturity from a time deposit with an original maturity of less than three months, the minimum required penalty is the amount of interest that could have been earned at the

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nominal contract rate if the time deposit funds had remained on deposit to maturity. Thus, for example, where funds are withdrawn prior to maturity from a time deposit with an original maturity of 45 days, the minimum required penalty is the forfeiture of an amount equal to the amount of interest at the nominal contract rate that could have been earned on such funds for 45 days.

In view of the fact that this is a technical amendment that clarifies the intent of the Committee's earlier action, the Committee finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest, and that good cause exists for making this action effective June 2, 1980.

Pursuant to its authority under Title II of Public Law 96-221, 94 Stat. 142 (12 U.S.C. 3501 et seq.), to prescribe rules governing the payment of interest and dividends on deposits of federally insured commercial banks, savings and loan associations and mutual savings banks, effective June 2, 1980, the Committee amends section 1204.103 of 12 CFR Part 1204 as follows:

PART 1204--INTEREST ON DEPOSITS

§ 1204.103--Penalty for Early Withdrawals

Where a time deposit with an original maturity of three months or more to one year, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to three months of interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit. Where a time deposit with an original maturity of less than three months, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to the amount of interest that could have been earned on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit had the funds remained on deposit until maturity. Where a time deposit with an original maturity of more than one year, or any portion thereof, is paid before maturity, a depositor shall forfeit an amount at least equal to six months of interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

By order of the Committee, June 6, 1980.

(Signed) Normand R. V. Bernard

Normand R. V. Bernard
Executive Secretary of the Committee

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