

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 9022
February 24, 1981

REGULATION Q
Revised Pamphlet Incorporating the Rules of the DIDC

To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has revised its Regulation Q pamphlet, "Interest on Deposits," in order to incorporate the rules of the Depository Institutions Deregulation Committee (DIDC), adopted pursuant to the Depository Institutions Deregulation Act of 1980. Enclosed is a copy of the new pamphlet, together with a copy of a revised Supplement to Regulation Q, both of which are amended effective January 15, 1981. The revised pamphlet supersedes the previous printing of Regulation Q, dated December 6, 1978, together with all amendments and supplements thereto. Additional copies of the enclosures will be furnished upon request.

Printed below is the text of the notice issued by the Board of Governors in adopting the DIDC's rules, which has been reprinted from the *Federal Register*, and which summarizes the Regulation Q revisions.

Questions regarding the regulation may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

12 CFR Part 217

[Regulation Q; (Docket No. R-0348)]

Interest on Deposits; Technical Amendments

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Technical amendments; rescission of interpretations.

SUMMARY: Pursuant to its authority under section 19 of the Federal Reserve Act, as amended, the Board has amended Regulation Q (Interest on Deposits) to incorporate the rules of the Depository Institutions Deregulation Committee ("DIDC"), adopted pursuant to the Depository Institutions Deregulation Act of 1980. The amendments to Regulation Q are technical in nature.

EFFECTIVE DATE: January 15, 1981.

FOR FURTHER INFORMATION CONTACT:

Gilbert T. Schwartz, Assistant General Counsel (202/452-3625), Anthony F. Cole, Senior Attorney (202/452-3612) or John Harry Jorgenson, Attorney (202/452-3778). Legal Division. Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221) transfers to the DIDC the authority conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) upon the Board (and the similar authority of the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board) to prescribe rules relating to the payment of interest on deposits. The DIDC has issued final regulations concerning: (1) withdrawal of interest from a time deposit (12 CFR 1204.101; 45 FR 31710); (2) payment of interest on a time deposit after maturity (12 CFR 1204.102; 45 FR 31711); (3) penalty for early withdrawals on time deposits [12

CFR 1204.103; 45 FR 37801 and 40109) and the penalty for early withdrawals from an IRA or a Keogh Plan account within seven days of opening the account (12 CFR 1204.113; 45 FR 84987); (4) interest rate ceilings on 26-week money market time deposits (12 CFR 1204.104) and on 2½ year small saver certificates (12 CFR 1204.106; 45 FR 37803); (5) interest rate ceiling on NOW accounts (12 CFR 1204.108; 45 FR 68644); and (6) premiums not considered payment of interest (12 CFR 1204.109), finders fees (12 CFR 1204.110), prepayment of interest and payment of interest in merchandise (12 CFR 1204.111; 45 FR 68641). In view of these actions by the DIDC, the Board is amending Regulation Q to incorporate these changes. The Board's interpretations concerning the use of premiums by member banks (12 CFR 217.147), the prepayment of interest by member banks (12 CFR 217.149) and the withdrawal of interest by depositors prior to maturity (12 CFR 219.154) also

are being rescinded in view of the provisions adopted by the DIDC.

The Board has also rescinded section 217.6(i) of Regulation Q, which limits the advertising of negotiable order of withdrawal (NOW) accounts to residents of States in which NOW accounts are authorized. This provision is no longer necessary because NOW accounts may be issued by all depository institutions nationwide pursuant to the Consumer Checking Account Equity Act of 1980 (Title III of Pub. L. 96-221).

The following table presents the provisions of Regulation Q that have been amended by the DIDC's actions.

DIDC rule	Regulation Q provision amended
1204.101—Withdrawal of interest.....	217.4(d)
1204.102—Payment of interest after maturity....	217.3(f)
1204.103—Penalty for early withdrawals.....	217.4(d)
1204.104—Interest rate ceilings on 26-week money market certificates.....	217.7(f)
1204.106—Interest rate ceilings on 2½-year small saver certificates.....	217.7(g)
1204.108—Interest rate ceilings on NOW accounts.....	217.7(c)
1204.109—Premiums not considered payment of interest.....	217.147
1204.110—Firders fees.....	217.147
1204.111—Prepayment of interest and payment of interest in merchandise.....	217.147
1204.1013—Penalty for early withdrawal IRA and Keogh Plan accounts within 7 days of opening the account.....	217.4(d)

¹ Supersedes board interpretations 217.149 and 217.154.

Because these amendments are necessary to conform the Board's rules to those of the DIDC, the Board for good cause finds that the notice, public procedure, and deferral of effective date provisions of 5 U.S.C. 553(b) with regard to these actions are unnecessary and contrary to the public interest.

Pursuant to the Board's authority under section 19 of the Federal Reserve Act (12 U.S.C. 461, 371b) to prescribe rules to effectuate the purposes of that section and to prevent evasions thereof, Regulation Q (12 CFR Part 217) is amended as follows:

1. Section 217.3(f) of Regulation Q (12 CFR Part 217.3(f)) is amended by adding the following sentences:

§ 217.3 [Amended]

(f) *No interest after maturity or expiration of notice.*

Provided, however, that a member bank may provide in any time deposit contract that if the deposit, or any portion thereof, is withdrawn not more than seven days after a maturity date, interest will be paid thereon at the originally specified contract rate. A member bank may specify in the time deposit contract that interest will be

paid at any other lower rate. However, in no event may the rate specified be less than the current rate paid on savings deposits by the member bank.

2. Section 217.4(d) (12 CFR Part 217.4(d)) is revised to read as follows:

§ 217.4 [Amended]

(d) *Penalty for early withdrawals.*

(1)(i) For time deposit contracts entered into before July 1, 1979, that have not been renewed or extended on or after July 1, 1979, the following minimum early withdrawal penalty shall apply. Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that prescribed in § 217.7 for a savings deposit and, in addition, the depositor shall forfeit three months of interest payable at such rate. If, however, the amount withdrawn has remained on deposit for three months or less, all interest shall be forfeited.

(ii) For time deposit contracts entered into, renewed, or extended on or after July 1, 1979, but prior to June 2, 1980, that have not been renewed or extended on or after June 2, 1980, the following minimum early withdrawal penalty shall apply:

(A) Where a time deposit with an original maturity or required notice period of one year or less, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least three months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount withdrawn has remained on deposit for less than three months, all interest on the amount withdrawn shall be forfeited.

(B) Where a time deposit with an original maturity or required notice period of more than one year, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least six months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount has remained on deposit for less than six months, all interest on the amount withdrawn shall be forfeited. (The provisions of this subparagraph (ii) may be applied, with the consent of the depositor, to time deposits specified in paragraph (d)(1)(vi) of this section.)

(iii) For time deposit contracts entered into, renewed, or extended on or after June 2, 1980, the following minimum early withdrawal penalty shall apply:

(A) Where a time deposit with an original maturity or required notice period 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.

(B) Where a time deposit with an original maturity or required notice period 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.

(C) Where a time deposit with an original maturity or required notice period 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.

(2) Notwithstanding the provisions of paragraph (d)(1), where a time deposit, or any portion thereof, maintained in an Individual Retirement Account established in accordance with 26 U.S.C. 408 is paid before maturity within seven days after the establishment of the Individual Retirement Account pursuant to the provisions of 26 CFR 1.408-1(d)(4), or where a time deposit, or any portion thereof, maintained in a Keogh (H.R. 10) Plan account established in accordance with 26 U.S.C. 401 is paid before maturity within seven days after the establishment of the Keogh (H.R. 10) Plan, a depositor shall forfeit an amount at least equal to the interest earned on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit.

(3) A member bank, with the depositor's consent, may compute the minimum penalty required to be imposed on withdrawals from time deposits opened prior to June 2, 1980, on the basis of the nominal (simple interest) rate.

(4) Where necessary to comply with the requirements of this paragraph, any interest already paid to or for the account of the depositor shall be deducted from the amount requested to be withdrawn.

(5) Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a reduction in the maturity of the deposit constitutes

a payment of the time deposit before maturity.

(6) For purposes of computing the penalty required to be imposed under this paragraph, under a time deposit agreement that provides that subsequent deposits reset the maturity of the entire account, each deposit maintained in the account for at least a period equal to the original maturity of the deposit may be regarded as having matured individually and been redeposited at intervals equal to such period. When a time deposit is payable only after notice, for funds on deposit for at least the notice period, the penalty for early withdrawal shall be imposed for at least the notice period.

(7) A member bank may permit a depositor to withdraw interest credited to a time deposit during any term at any time during such term without penalty. If the deposit or account is automatically renewed on the same terms (including at the same rate of interest), interest credited during the preceding term or terms as well as the renewal term may be paid at any time during the renewal term without penalty, unless the deposit agreement specifically provides otherwise. If the rate of interest paid during the renewal term or the maturity period of the renewal term is different, interest in the account at the commencement of the renewal term shall be treated as principal, and only interest for the renewal term may be paid at any time without penalty during such term.

(8) A time deposit, or a portion thereof, may be paid before maturity without a forfeiture of interest as prescribed by this paragraph in the following circumstances:

(i) Where a member bank pays all or a portion of a time deposit representing funds contributed to an Individual Retirement Account or a Keogh (H.R. 10) Plan established pursuant to 26 U.S.C. (IRC 1954) 408, 401 when the individual for whose benefit the account is maintained attains age 59½ or is disabled (as defined in 26 U.S.C. (IRC 1954) 72(m)(7)) or thereafter; or

(ii) Where a member bank pays that portion of a time deposit on which Federal deposit insurance has been lost as the result of the merger of two or more Federally insured banks in which the depositor previously maintained separate time deposits, for a period of one year from the date of the merger.

(9) A time deposit, or the portion thereof requested, must be paid before maturity without a forfeiture of interest as prescribed by this paragraph in the following circumstances:

(i) Where requested, upon the death of any owner¹¹ of the time deposit funds; or

(ii) Where requested, when the owner¹¹ of the time deposit is determined to be legally incompetent by a court or other administrative body of competent jurisdiction.

§ 217.6 [Amended]

3. Section 217.6 of Regulation Q (12 CFR Part 217.6) is amended by removing paragraph (i) and redesignating paragraph (j) as paragraph (i).

4. Section 217.7 of Regulation Q (12 CFR Part 217.7) is amended by revising paragraphs (c), (f) and (g) to read as follows:

§ 217.7 Maximum rates of interest payable by member banks on time and savings deposits.

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

(f) *26-week money market time deposits of less than \$100,000.* Except as provided in paragraphs (a), (b) and (d) of this section, a member bank may pay interest on any nonnegotiable time deposit of \$10,000 or more, with a maturity of 26 weeks at a rate not to exceed the rates set forth below:

Bill rate ¹	Maximum percent
7.50 percent or below	7.75
Above 7.50 percent	(2)

¹ Rate established (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks issued on or immediately prior to the date of deposit ("Bill Rate").

² Bill rate plus ¼ of 1 percent.

Rounding rates to the next higher rate is not permitted and interest may not be compounded 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

¹¹ For the purposes of this provision, an "owner" of time deposit funds is any individual who died or was determined to be incompetent on or after August 1, 1979, and who at the time of his or her death or determination of incompetence had full legal and beneficial title to all or a portion of such funds or, at the time of his or her death or determination of incompetence, had beneficial title to all or a portion of such funds and full power of disposition and alienation with respect thereto.

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. (IRC 1954) 408, 401, at a rate not to exceed the ceiling rate payable on the same category of deposit by an Federally insured savings and loan association or mutual savings bank.³

(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) of this section, 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 Thursday of every other week at a rate not to exceed the higher of one-quarter 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 immediately prior to such Thursday, or 9.25 per cent. The average 2½ year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. Except as provided below, in no event shall the rate of interest paid exceed 11.75 per cent. 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 of Keogh (H.R. 10) Plan established pursuant to 26 U.S.C. (I.R.C. 1954) 408, 401,

³ The ceiling rate of interest payable for this category of deposit by Federally insured savings and loan associations and mutual savings banks is 7.75 per cent when the Bill Rate is 7.25 per cent or lower, one-half of one per cent above the Bill Rate when the Bill Rate is above 7.25 per cent but below 8.50 per cent, 9.00 per cent when the Bill Rate is 8.50 per cent or above but below 8.75 per cent, and one-quarter of one per cent above the Bill Rate when the Bill Rate is 8.75 per cent or above.

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.⁴

5. Section 217.147 of Regulation Q (12 CFR Part 217.147) is revised to read as follows:

§ 217.147 Premiums, Finders Fees, Prepayment of Interest and Payment of Interest in Merchandise.

For regulatory provisions relating to premiums, finders fees, prepayment of interest and payment of interest in merchandise refer to 12 CFR 1204.109, 1204.110, 1204.111 and 1204.114.

§§ 217.149, 217.154 [Removed]

6. Sections 217.149 and 217.154 of Regulation Q (12 CFR §§ 217.149 and 217.154) are hereby removed.

By order of the Board of Governors of the Federal Reserve System, January 15, 1981.

Theodore E. Allison,
Secretary of the Board.

[FR Doc. 81-4026 Filed 2-2-81; 8:45 am]
BILLING CODE 6210-01-M

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

SUPPLEMENT TO REGULATION Q †

As amended effective January 15, 1981

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 rates¹ 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>
14 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

(c) **Saving deposits.** No member bank shall pay interest at a rate in excess of 5¼ per cent on any savings deposit. No member bank shall pay interest at a rate in excess of 5¼ per cent on any savings deposit that is subject to negotiable orders of with-

¹ 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.

drawal, 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.²

(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.²

(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 deposit of \$10,000 or more, with a maturity of 26 weeks at a rate not to exceed the rates set forth below:

<i>Rate established (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks issued on or immediately prior to the date of deposit ("Bill Rate")</i>	<i>Maximum Per Cent</i>
7.50 per cent or below	7.75

Above 7.50 per cent Bill Rate plus one-quarter of one per cent

² 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.

JANUARY 1981

† Destroy any previous Supplements.

Rounding rates to the next higher rate is not permitted and interest may not be compounded 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. (IRC 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.³

(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 Thursday of every other week at a rate not to exceed the higher of one-quarter 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 immediately prior to such Thursday, or 9.25 per cent. The average 2½ year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. Except as provided below, in no event shall the rate of interest paid exceed 11.75 per cent. 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:

³ The ceiling rate of interest payable for this category of deposit by Federally insured savings and loan associations and mutual savings banks is 7.75 per cent when the Bill Rate is 7.25 per cent or lower, one-half of one per cent above the Bill Rate when the Bill Rate is above 7.25 per cent but below 8.50 per cent, 9.00 per cent when the Bill Rate is 8.50 per cent or above but below 8.75 per cent, and one-quarter of one per cent above the Bill Rate when the Bill Rate is 8.75 per cent or above.

(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.⁴

(h) **Obligations of the parent bank holding company of a member bank.** Notwithstanding the above, interest may be paid on a deposit as defined in § 217.1(h) of this Part at a rate not to exceed the following schedule:

<i>Original Maturity or Redemption Period</i>	<i>Maximum Per Cent</i>
2½ to 4 years	For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 2½ year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 2½ year variable ceiling time deposits pursuant to the provisions of § 217.7(g) in effect at the time the obligation is issued. For a successive period thereafter, interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for 2½ year variable ceiling time deposits established pursuant to the provisions of § 217.7(g) in effect at the time the obligation was issued.

⁴ The ceiling rate of interest payable for this category of deposit by Federally insured savings and loan associations and mutual savings banks is one-quarter of one per cent above the rate that may be paid by member banks.

26 weeks or more but less than 2½ years (\$10,000 minimum denomination required)

For an obligation that is not redeemable prior to maturity, interest may be paid at the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For an obligation that is redeemable prior to maturity, the maximum rate of interest that may be paid from the date of issuance until the first date on which the obligation may be redeemed shall not exceed the rate established for 26-week money market time deposits pursuant to the provisions of § 217.7(f) in effect at the time the obligation is issued. For a successive period thereafter interest may be paid during such period until the next date on which the obligation may be redeemed at a rate not to exceed the rate that would be in effect on the first day of such period for

Original Maturity or Redemption Period

Maximum Per Cent

26-week money market time deposits established pursuant to the provisions of § 217.7(f) in effect at the time the obligation was issued.

14 days or more but less than 2½ years (No minimum denomination required)

Interest may be paid at the ceilings established pursuant to the provisions of § 217.7(b) in effect at the time the obligation is issued.

less than 14 days

No interest may be paid.

**BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM**

INTEREST ON DEPOSITS

REGULATION Q

(12 CFR 217)

As amended effective January 15, 1981

Any inquiry relating to this regulation should be addressed to the Federal Reserve Bank of the Federal Reserve District in which the inquiry arises.

JANUARY 1981

CONTENTS

	Page		Page
SEC. 217.0—SCOPE OF PART	3	(a) Time deposits payable on a specified date	7
SEC. 217.1—DEFINITIONS	3	(b) Time deposits payable after a specified period	7
(a) Demand deposits	3	(c) Time deposits payable after a specified notice	7
(b) Time deposits	3	(d) Penalty for early withdrawals ...	7
(c) Time certificates of deposit	3	(e) Disclosure of early withdrawal penalty	9
(d) Time deposits, open account	3	(f) Loans upon security of time deposits	9
(e) Savings deposits	4		
(f) Deposits as including certain promissory notes	4	SEC. 217.5—WITHDRAWAL OF SAVINGS DEPOSITS	9
(g) Multiple maturity time deposit ..	5	(a) Requirements regarding notice of withdrawal	9
(h) Obligations issued by the parent bank holding company of a member bank	5	(b) Loans on security of savings deposits	9
(i) Credit balances	5	(c) Manner of payment of savings deposits	9
(j) Foreign bank	5		
SEC. 217.2—DEMAND DEPOSITS	6	SEC. 217.6—ADVERTISING OF INTEREST ON DEPOSITS	10
(a) Interest prohibited	6	(a) Annual rate of simple interest ...	10
(b) Meaning of interest	6	(b) Percentage yields based on one year	10
SEC. 217.3—INTEREST ON TIME AND SAVINGS DEPOSITS	6	(c) Percentage yields based on periods in excess of one year ...	10
(a) Maximum rate	6	(d) Time or amount requirements ...	10
(b) Modification of contracts to conform to regulation	6	(e) Penalty for early withdrawals ...	10
(c) Member banks limited to maximum rate for State banks	6	(f) Profit	11
(d) Grace periods in computing interest on savings deposits	6	(g) Accuracy of advertising	11
(e) Computation of interest	6	(h) Solicitation of deposits for banks	11
(f) No interest after maturity or expiration of notice	6	(i) Money market time deposits ...	11
(g) Time deposits of foreign governmental entities and international organizations	7	STATUTORY APPENDIX	11
SEC. 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY	7		

[SEC. 217.7—SUPPLEMENT, MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS, is printed separately.]

REGULATION Q

(12 CFR 217)

As amended effective January 15, 1981

INTEREST ON DEPOSITS*

SECTION 217.0—SCOPE OF PART

(a) This Part is issued under authority of provisions of section 19 of the Federal Reserve Act which, together with related provisions of law, are cited in the Appendix.

(b) This Part relates to the payment of deposits and interest thereon by member banks of the Federal Reserve System and not to the computation and maintenance of the reserves which member banks are required to maintain against deposits. The rules concerning reserves of member banks are contained in Part 204 of this chapter.

(c) Under authority of the provisions of section 7 of the International Banking Act of 1978 (12 U.S.C. § 3105), the provisions of this Part apply to a Federal branch or agency of a foreign bank and to a State uninsured branch or agency of a foreign bank in the same manner and to the same extent as if the branch or agency were a member bank, except as may be otherwise provided by the Board, if (i) its parent foreign bank has total worldwide consolidated bank assets in excess of \$1 billion; (ii) its parent foreign bank is controlled by a foreign company which owns or controls foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion; or (iii) its parent foreign bank is controlled by a group of foreign companies that own or control foreign banks that in the aggregate have total worldwide consolidated bank assets in excess of \$1 billion.

(d) The provisions of this Part do not apply to any deposit that is payable only at an office located outside of the States of the United States and the District of Columbia of a member bank or of a foreign bank.

SECTION 217.1—DEFINITIONS

(a) **Demand deposits.** The term "any deposit which is payable on demand", hereinafter referred

to as a "demand deposit", includes every deposit which is not a "time deposit" or "savings deposit", as defined in this section.

(b) **Time deposits.** The term "time deposits" means "time certificates of deposit" and "time deposits, open account", as defined in this section.

(c) **Time certificates of deposit.** The term "time certificate of deposit" means a deposit evidenced by a negotiable or non-negotiable instrument which provides on its face that the amount of such deposit is payable to bearer or to any specified person or to his order:

(1) On a certain date, specified in the instrument, not less than 14 days after date of the deposit, or

(2) At the expiration of a certain specified time not less than 14 days after the date of the instrument, or

(3) Upon notice in writing which is actually required to be given not less than 14 days before the date of repayment,¹ and

(4) In all cases only upon presentation and surrender of the instrument.

(d) **Time deposits, open account.** The term "time deposit, open account" means a deposit, other than a "time certificate of deposit", with respect to which there is in force a written contract with the depositor that neither the whole nor any part of such deposit may be withdrawn, by check or otherwise, prior to the date of maturity, which shall be not less than 14 days after the date of the deposit,² or prior to the expiration of the period of

* The text corresponds to the Code of Federal Regulations, Title 12, Chapter II, Part 217; cited as 12 CFR 217. The words "this Part", as used herein, mean Regulation Q.

¹ A deposit with respect to which the bank merely reserves the right to require notice of not less than 14 days, before any withdrawal is made is not a "time certificate of deposit" within the meaning of the above definition.

² Deposits, such as Christmas club accounts and vacation club accounts, which are made under written contracts providing that

notice which must be given by the depositor in writing not less than 30 days in advance of withdrawal.³

(e) **Savings deposits.** The term "savings deposits" means a deposit—

(1) That consists of funds deposited to the credit of or in which the entire beneficial interest is held by one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit;⁴ or that 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; or that consists of funds deposited to the credit of, or in which any beneficial interest is held by a corporation, association, or other organization not qualifying above to the extent such funds do not exceed \$150,000 per such depositor at a member bank; and

(2) With respect to which the depositor is not required by the deposit contract but may at any time be required by the bank to give notice in writing of an intended withdrawal not less than 14 days before such withdrawal is made⁵ and which is not payable on a specified date or at the expiration of a specified time after the date of deposit.

(3) In those States where banks are permitted to offer deposits subject to negotiable orders of withdrawal, such deposits may be maintained if such deposits consist of funds deposited to the credit of or in which the entire beneficial interest is held by one or more individuals, or a corporation, association, or other organization operated primar-

no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than 3 months constitute "time deposits, open account", even though some of the deposits are made within 14 days from the end of the period.

³ A deposit with respect to which the bank merely reserves the right to require notice of not less than 14 days before any withdrawal is made is not a "time deposit, open account", within the meaning of the above definition.

⁴ Deposits in joint accounts of two or more individuals may be classified as savings deposits if they meet the other requirements of the above definition. Deposits of a partnership operated for profit may also be classified as savings to the extent such deposits do not exceed \$150,000 per partnership at a member bank.

⁵ The exercise by the bank of its rights to require such notice shall not cause the deposit to cease to be a savings deposit.

ily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not operated for profit. Deposits in which any beneficial interest is held by a corporation, partnership, association or other organization operated for profit or not operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes may not be classified as deposits subject to negotiable orders of withdrawal.

(f) **Deposits as including certain promissory notes and other obligations.** For the purposes of this Part, the term "deposits" also includes any member bank's liability on any promissory note, acknowledgment of advance, due bill, or similar obligation (written or oral) that is issued or undertaken by a member bank principally as a means of obtaining funds to be used in its banking business, except any such obligation that:

(1) Is issued to (or undertaken with respect to) and held for the account of (i) a bank or an institution the time deposits of which are exempt from § 217.7 pursuant to §217.3(g), or (ii) the United States or an agency thereof, or the Government Development Bank for Puerto Rico;

(2) Evidences an indebtedness arising from a transfer of direct obligations of, or obligations that are fully guaranteed as to principal and interest by, the United States or any agency thereof that the bank is obligated to repurchase, and

(a) is issued in denominations of \$100,000 or more; or

(b) is issued in denominations of less than \$100,000, matures in less than 90 days and is not automatically renewable or extended;^{5a}

(3) (i) Bears on its face, in bold-face type the following:

"This obligation is not a deposit and is not insured by the Federal Deposit Insurance Corporation";

is subordinated to the claims of depositors, is unsecured, and is ineligible as collateral for a loan by the issuing bank and also expressly states said provisions on its face; has an original maturity of at least seven years, or, in the case of an obligation or issue that provides for any type of scheduled repay-

^{5a} A member bank with such obligations issued in denominations of less than \$100,000 with maturities of 90 days or more may continue to issue such obligations until August 1, 1982, without regard to this subparagraph. However, the aggregate amount of such obligations outstanding on a member bank's books may not exceed the total of such obligations outstanding on its books on August 1, 1979.

ments of principal, has an average maturity⁶ of at least seven years⁷ and provides that once any such repayment of principal begins, all scheduled repayments shall be made at least annually and the amount repaid in each year is no less than in the prior year; is issued subject to a requirement that no repayment (other than a regularly scheduled repayment already approved by the appropriate Federal bank regulatory agency), including but not limited to a payment pursuant to acceleration of maturity, may be made without the prior written approval of the appropriate Federal bank regulatory agency;⁸ is in an amount of at least \$500. *Except.* That the appropriate Federal bank regulatory agency may approve the issuance of an obligation that is less than \$500 if such lesser amount is necessary (a) to satisfy the preemptive rights of shareholders in the case of a convertible debt obligation, (b) to maintain a ratable unit offering to holders of preemptive rights in the case of an obligation issued exclusively as part of a unit including shares of stock which are subject to such preemptive rights, or (c) to satisfy shareholders' ratable claims in the case of an obligation issued wholly or partially in exchange for shares of voting stock or assets pursuant to a plan of merger, consolidation, reorganization, or other transaction where the issuer will acquire either a majority of such shares of voting stock or all or substantially all of the assets of the entity whose assets are being acquired; and has been approved by the appropriate Federal bank regulatory agency as an addition to the capital structure of the issuing bank; or (i) meets all of the requirements in the preceding clause except the maturity requirement or the requirement that scheduled repayments shall be in amounts at least equal to those made in a previous year; and with respect to which the appropriate Federal bank regulatory agency has determined that exigent circumstances require the issuance of such obligations without regard to the provisions of this Part; or (ii) was issued or publicly offered before June 30, 1970, with an original maturity of more than two years; or

(4) Arises from a borrowing by a member

⁶ The "average maturity" of an obligation or issue repayable in scheduled periodic payments shall be the weighted average of the maturities of all such scheduled repayments.

⁷ In a serial issue the member bank may offer no note with maturity of less than five years.

⁸ For the purposes of this Part, the "appropriate Federal bank regulatory agency" is the Comptroller of the Currency in the case of a national bank and the Board of Governors in the case of a State member bank.

bank from a dealer in securities, for one business day, of proceeds of a transfer of deposit credit in a Federal Reserve Bank (or other immediately available funds), commonly referred to as "Federal funds", received by such dealer on the date of the loan in connection with clearance of securities transactions.

This paragraph shall not, however, affect (i) any instrument issued before June 27, 1966, or (ii) any instrument that evidences an indebtedness arising from a transfer of assets under a repurchase agreement issued before July 25, 1969.

(g) **Multiple maturity time deposit.** The term "multiple maturity time deposit" means any time deposit (1) that is payable at the depositor's option on more than one date, whether on a specified date or at the expiration of a specified time after the date of deposit (e.g., a deposit payable at the option of the depositor either three months or six months after the date of deposit), (2) that is payable after written notice of withdrawal, or (3) with respect to which the underlying instrument or contract or any informal understanding or agreement provides for automatic renewal at maturity.

(h) **Obligations issued by the parent bank holding company of a member bank.** For the purposes of this Part, the "deposits" of a member bank also includes an obligation that is (1) issued in a denomination of less than \$100,000; (2) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (3) issued or guaranteed in whole or in part as to principal or interest by the member bank's parent which is a bank holding company under the Bank Holding Company Act of 1956, as amended (12 U.S.C. §§ 1841-1850), regardless of the use of the proceeds; and (4) issued with an original maturity of 4 years or less, or which is redeemable at intervals of 4 years or less at the option of the holder. The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to P.L. 89-597.

(i) **Credit balances.** For purposes of this Part, the term "deposits" also includes the credit balances of a United States branch or agency of a foreign bank.

(j) **Foreign bank.** "Foreign bank" means any bank organized under the laws of any country other than the United States (including its States and the District of Columbia), or organized under the laws

of Puerto Rico, Guam, American Samoa, the Virgin Islands, or a territory of the United States.

SECTION 217.2—DEMAND DEPOSITS

(a) **Interest prohibited.** Except as provided by section 19 of the Federal Reserve Act, no member bank of the Federal Reserve System shall, directly or indirectly, by any device whatsoever, pay any interest on any demand deposit.

(b) **Meaning of interest.** Within this Part, any payment to or for the account of any depositor as compensation for the use of funds constituting a deposit shall be considered interest.

SECTION 217.3—INTEREST ON TIME AND SAVINGS DEPOSITS

(a) **Maximum rate.** Except as provided in this section, no member bank shall, directly or indirectly, by any device whatsoever, pay interest on any time or savings deposit at a rate in excess of such applicable maximum rate as the Board of Governors of the Federal Reserve System shall prescribe from time to time in § 217.7. In ascertaining the rate of interest paid, the effects of compounding of interest may be disregarded. The maximum rate of interest that may be paid by a member bank on an additional deposit to any existing time deposit shall not exceed the maximum rate that may be paid in accordance with § 217.7 on the date the additional deposit is made.

(b) **Modification of contracts to conform to regulation.** No certificate of deposit or other contract shall be renewed or extended unless it be modified to conform to the provisions of this Part, and every member bank shall take such action as may be necessary, as soon as possible consistently with its contractual obligations, to bring all of its outstanding certificates of deposit or other contracts into conformity with the provisions of this Part.

(c) **Member bank limited to maximum rate for State banks.** The rate of interest paid by a member bank upon a time deposit or savings deposit shall not in any case exceed (1) the applicable maximum rate prescribed pursuant to the provisions of paragraph (a) of this section, or (2) the applicable maximum rate authorized by law to be paid upon such deposits by State banks or trust companies organized under the laws of the State in which such member bank is located, whichever may be less.

(d) **Grace periods in computing interest on savings deposits.** A member bank may pay interest on a savings deposit received during the first 10 calendar days of any calendar month at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated from the first day of such calendar month until such deposit is withdrawn or ceases to constitute a savings deposit under the provisions of this Part, whichever shall first occur; and a member bank may pay interest on a savings deposit withdrawn during its last 3 business days of any calendar month ending a regular quarterly or semiannual interest period at the applicable maximum rate prescribed pursuant to paragraph (a) of this section calculated to the end of such calendar month.

(e) **Computation of interest.** In the computation of simple daily interest, the time factor should be expressed as a fraction in which the actual number of days the funds earn interest is the numerator, and the denominator is either 360, 365, or, in a leap year, 366. However, when a deposit matures in one month (or multiples thereof), the bank may use 30 days in the numerator (or corresponding multiples thereof).

(f) **No interest after maturity or expiration of notice.** After the date of maturity of any time deposit, such deposit is a demand deposit, and no interest may be paid on such deposit for any period subsequent to such date. After the expiration of the period of notice given with respect to the repayment of any time deposit or savings deposit, such deposit is a demand deposit and no interest may be paid on such deposit for any period subsequent to the expiration of such notice, except that, if the owner of such deposit advises the bank in writing that the deposit will not be withdrawn pursuant to such notice or that the deposit will thereafter again be subject to the contract or requirements applicable to such deposit, the deposit will again constitute a time deposit or savings deposit, as the case may be, after the date upon which such advice is received by the bank. On each certificate, passbook, or other document representing a time deposit, the bank shall have printed or stamped a conspicuous statement indicating that no interest will be paid on the deposit after the maturity date or, in the case of a time deposit that is automatically renewable, a conspicuous statement indicating that the contract will be renewed automatically upon maturity, and indicating the terms of such renewal.

Provided, however, that a member bank may

provide in any time deposit contract that if the deposit, or any portion thereof, is withdrawn not more than seven days after a maturity date, interest will be paid thereon at the originally specified contract rate. A member bank may specify in the time deposit contract that interest will be paid at any other lower rate. However, in no event may the rate specified be less than the current rate paid on savings deposits by the member bank.

(g) **Time deposits of foreign governmental entities and international organizations.** Section 217.7 does not apply to the rate of interest that may be paid by a member bank on a time deposit having a maturity of 2 years or less and representing funds deposited and owned by (1) a foreign national government, or an agency or instrumentality thereof⁹ engaged principally in activities which are ordinarily performed in the United States by governmental entities, (2) an international entity of which the United States is a member, or (3) any other foreign, international, or supranational entity specifically designated by the Board as exempt from § 217.7. All certificates of deposit issued by member banks to such entities on which the contract rate of interest exceeds the maximum prescribed under §217.7 shall provide that (1) in the event of transfer, the date of transfer, attested to in writing by the transferor, shall appear on the certificate, and (2) the maximum rate limitations of §217.7 in effect at the date of issuance of the certificate shall apply to the certificate for any period during which it is held by a person other than an entity exempt therefrom under the foregoing sentence.¹⁰ Upon the presentment of such a certificate for payment, the bank may pay the holder the contract rate of interest on the deposit for the time that the certificate was actually owned by an entity so exempt.

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

(a) **Time deposits payable on a specified date.** No member bank shall pay any time deposit, which

⁹ Other than States, provinces, municipalities or other regional or local governmental units, or agencies or instrumentalities thereof.

¹⁰ A new certificate not maturing prior to the maturity date of the original certificate may be issued by the member bank to the transferee, in which event the original must be retained by the bank. The new certificate may not provide for interest after the date of transfer at a rate in excess of the applicable maximum rate authorized by § 217.7 as of the date of issuance of the original certificate.

is payable on a specified date, before such specified date, except as provided in paragraph (d) of this section.

(b) **Time deposits payable after a specified period.** No member bank shall pay any time deposit, which is payable at the expiration of a certain specified period, before such specified period has expired, except as provided in paragraph (d) of this section.

(c) **Time deposits payable after a specified notice.** No member bank shall pay any time deposit, with respect to which notice is required to be given a certain specified period before any withdrawal is made, until such required notice has been given and the specified period thereafter has expired, except as provided in paragraph (d) of this section.

(d) **Penalty for early withdrawals.**

(1) (i) For time deposit contracts entered into before July 1, 1979, that have not been renewed or extended on or after July 1, 1979, the following minimum early withdrawal penalty shall apply:

Where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that prescribed in § 217.7 for a savings deposit and, in addition, the depositor shall forfeit three months of interest payable at such rate. If, however, the amount withdrawn has remained on deposit for three months or less, all interest shall be forfeited.

(ii) For time deposit contracts entered into, renewed, or extended on or after July 1, 1979, but prior to June 2, 1980, that have not been renewed or extended on or after June 2, 1980, the following minimum early withdrawal penalty shall apply:

(A) Where a time deposit with an original maturity or required notice period of one year or less, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least three months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount withdrawn has remained on deposit for less than three months, all interest on the amount withdrawn shall be forfeited.

(B) Where a time deposit with an original maturity or required notice period of more than one year, or any portion thereof, is paid before maturity or before the expiration of the required notice period, a depositor shall forfeit at least six months of interest on the amount withdrawn at the rate being paid on the deposit. If the amount has remained on

deposit for less than six months, all interest on the amount withdrawn shall be forfeited. (The provisions of this subparagraph (ii) may be applied, with the consent of the depositor, to time deposits specified in subparagraph (i) above.)

(iii) For time deposit contracts entered into, renewed, or extended on or after June 2, 1980, the following minimum early withdrawal penalty shall apply:

(A) Where a time deposit with an original maturity or required notice period 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.

(B) Where a time deposit with an original maturity or required notice period 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.

(C) Where a time deposit with an original maturity or required notice period 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.

(2) Notwithstanding the provisions of paragraph (d)(1), where a time deposit, or any portion thereof, maintained in an Individual Retirement Account established in accordance with 26 U.S.C. § 408 is paid before maturity within seven days after the establishment of the Individual Retirement Account pursuant to the provisions of 26 CFR § 1.408(1)(d)(4), or where a time deposit, or any portion thereof, maintained in a Keogh (H.R. 10) Plan account established in accordance with 26 U.S.C. § 401 is paid before maturity within seven days after the establishment of the Keogh (H.R. 10) Plan, a depositor shall forfeit an amount at least equal to the interest earned on the amount withdrawn at the nominal (simple interest) rate being paid on the deposit.

(3) A member bank, with the depositor's con-

sent, may compute the minimum penalty required to be imposed on withdrawals from time deposits opened prior to June 2, 1980, on the basis of the nominal (simple interest) rate.

(4) Where necessary to comply with the requirements of this paragraph, any interest already paid to or for the account of the depositor shall be deducted from the amount requested to be withdrawn.

(5) Any amendment of a time deposit contract that results in an increase in the rate of interest paid or in a reduction in the maturity of the deposit constitutes a payment of the time deposit before maturity.

(6) For purposes of computing the penalty required to be imposed under this paragraph, under a time deposit agreement that provides that subsequent deposits reset the maturity of the entire account, each deposit maintained in the account for at least a period equal to the original maturity of the deposit may be regarded as having matured individually and been redeposited at intervals equal to such period. When a time deposit is payable only after notice, for funds on deposit for at least the notice period, the penalty for early withdrawal shall be imposed for at least the notice period.

(7) A member bank may permit a depositor to withdraw interest credited to a time deposit during any term at any time during such term without penalty. If the deposit or account is automatically renewed on the same terms (including at the same rate of interest), interest credited during the preceding term or terms as well as the renewal term may be paid at any time during the renewal term without penalty, unless the deposit agreement specifically provides otherwise. If the rate of interest paid during the renewal term or the maturity period of the renewal term is different, interest in the account at the commencement of the renewal term shall be treated as principal, and only interest for the renewal term may be paid at any time without penalty during such term.

(8) A time deposit, or a portion thereof, may be paid before maturity without a forfeiture of interest as prescribed by this paragraph in the following circumstances:

(i) Where a member bank pays all or a portion of a time deposit representing funds contributed to an Individual Retirement Account or a Keogh (H. R. 10) Plan established pursuant to 26 U.S.C. (I.R.C. 1954) §§ 408, 401 when the individual for whose benefit the account is main-

tained attains age 59½ or is disabled (as defined in 26 U.S.C. (I.R.C. 1954) § 72(m)(7)) or thereafter; or

(ii) Where a member bank pays that portion of a time deposit on which Federal deposit insurance has been lost as the result of the merger of two or more Federally insured banks in which the depositor previously maintained separate time deposits, for a period of one year from the date of the merger.

(9) A time deposit, or the portion thereof requested, must be paid before maturity without a forfeiture of interest as prescribed by this paragraph in the following circumstances:

(i) Where requested, upon the death of any owner¹¹ of the time deposit funds; or

(ii) Where requested, when the owner¹¹ of the time deposit is determined to be legally incompetent by a court or other administrative body of competent jurisdiction.

(e) **Disclosure of early withdrawal penalty.** At the time a depositor enters into a time deposit contract with a member bank, the bank shall provide a written statement of the effect of the penalty prescribed in paragraph (d) of this section, which shall (1) state clearly that the customer has contracted to keep his funds on deposit for the stated maturity, and (2) describe fully and clearly how such penalty provisions apply to time deposits in such bank, in the event the bank, notwithstanding the contract provisions, permits payment before maturity. Such statements shall be expressly called to the attention of the customer.

(f) **Loans upon security of time deposits.** A member bank may make a loan to the depositor upon the security of his time deposit provided that the rate of interest on such loan shall be not less than 1 per cent per annum in excess of the rate of interest on the time deposit.

SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

(a) **Requirements regarding notice of withdrawal.** Whether or not interest is paid, no mem-

¹¹ For the purposes of this provision, an "owner" of time deposit funds is any individual who died or was determined to be incompetent on or after August 1, 1979, and who at the time of his or her death or determination of incompetence had full legal and beneficial title to all or a portion of such funds or, at the time of his or her death or determination of incompetence, had beneficial title to all or a portion of such funds and full power of disposition and alienation with respect thereto.

ber bank shall require or waive notice of withdrawal as to any amount or percentage of the savings deposit of any depositor unless it shall similarly require or waive such notice as to the same amount or percentage of the savings deposits of every other depositor which are subject to the same contractual provisions with respect to notice of withdrawal. If a member bank, without requiring notice of withdrawal, pays interest that has accrued on a savings deposit during the preceding interest period, it shall, upon request and without requiring such notice, pay interest that has accrued during said period on the savings deposits of every other depositor. No member bank shall change its practice with respect to the requiring or waiving of notice of withdrawal of savings deposits for the purpose of discriminating in favor of or against any depositor or depositors, and no such change of practice shall be made except pursuant to duly recorded action of the bank's board of directors or a properly authorized committee thereof.

(b) **Loans on security of savings deposits.** If it is not the practice of a member bank to require notice of withdrawal of savings deposits, no restrictions are imposed by this Part upon loans by such bank to its depositors upon the security of such deposits. If it is the practice of a member bank to require notice of withdrawal of a savings deposit, such bank may make loans to a depositor upon the security of such deposit, but the rate of interest on such loans shall be not less than 1 per cent per annum in excess of the rate of interest paid on such deposit.

(c) **Manner of payment of savings deposits.**

(1) Subject to the provisions of subparagraphs (2) and (3) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment¹² to the depositor himself (but not to any other person whether or not acting for the depositor), except

(i) where the deposit is represented by a passbook, to any person presenting the passbook;¹²

(ii) to any executor, administrator, trustee, or other fiduciary holding the savings deposit as part of a fiduciary estate, or to a person, other than the bank, holding a general power of attorney granted by the depositor;

(iii) to any person, including the bank, that

¹² Payment from a savings deposit or presentation of a passbook may be made over the counter, through the mails, or otherwise.

has extended credit to the depositor on the security of the savings deposit, where such payment is made in order to enable the creditor to realize upon such security:

(iv) pursuant to the order of a court of competent jurisdiction;

(v) upon the death of the depositor, to any person authorized by law to receive the deposit;

(vi) interest paid to a third person pursuant to written instruction or assignment by the depositor accepted by the bank, and placed on file therein; or

(vii) pursuant to nontransferable withdrawal orders or authorizations received from a depositor by a member bank for the payment of amounts from such deposits to third parties, including the bank (except as prohibited by subparagraph 2), periodically or otherwise. Any such withdrawal order or authorization that may be honored as a withdrawal request for payment to a third party may, if so authorized by the third party, be honored as a transfer to an account of such third party. Any form for such withdrawal order or authorization shall contain language in boldface type of reasonable size to the effect that it is not negotiable or transferable.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, withdrawals may be permitted by a member bank to be made automatically or as a normal practice from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in order to cover checks or drafts drawn upon the bank or to maintain a specified balance in or to make periodic transfers to such accounts. In accordance with § 217.1(e)(2) of this Part, a member bank must reserve the right to require the depositor to give notice in writing of an intended withdrawal not less than 14 days before such withdrawal is made. Such notice shall be prominently disclosed and specifically brought to the depositor's attention at the time the automatic transfer service is authorized. A member bank may not require a depositor to authorize such automatic transfer to be made from savings deposits.

(3) A member bank may permit depositors to maintain deposits subject to negotiable orders of withdrawal where authorized by Federal law.

(4) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal for such a deposit shall be entered in the passbook as soon as practicable after withdrawal is made.

SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS

Every advertisement, announcement, or solicitation relating to the interest paid on deposits in member banks shall be governed by the following rules:

(a) **Annual rate of simple interest.** Interest rates shall be stated in terms of the annual rate of simple interest. In no case shall a rate be advertised that is in excess of the applicable maximum rate for the particular deposit.

(b) **Percentage yields based on one year.** Where a percentage yield achieved by compounding interest during one year is advertised, the annual rate of simple interest shall be stated with equal prominence, together with a reference to the basis of compounding. No member bank shall advertise a percentage yield based on the effect of grace periods permitted in § 217.3(d).

(c) **Percentage yields based on periods in excess of one year.** No advertisement shall include any indication of a total percentage yield, compounded or simple, based on a period in excess of a year, or an average annual percentage yield achieved by compounding during a period in excess of a year.

(d) **Time or amount requirements.** If an advertised rate is payable only on deposits that meet time or amount requirements, such requirements shall be clearly and conspicuously stated. Where the time requirement for an advertised rate is in excess of a year, the required number of years for the rate to apply shall be stated with equal prominence, together with an indication of any lower rate or rates that will apply if the deposit is withdrawn at an earlier maturity.

(e) **Penalty for early withdrawals.** Any advertisement, announcement, or solicitation relating to interest paid by a member bank on time deposits shall include clear and conspicuous notice that the bank is prohibited from allowing payment of a time deposit before maturity unless substantial interest is forfeited. Such notice may state that,

“Substantial interest penalty is required for early withdrawal.”

(f) **Profit.** The term “profit” shall not be used in referring to interest paid on deposits.

(g) **Accuracy of advertising.** No member bank shall make any advertisement, announcement, or solicitation relating to the interest paid on deposits that is inaccurate or misleading or that misrepresents its deposit contracts.

(h) **Solicitation of deposits for banks.** Any person or organization that solicits deposits for a member bank shall be bound by the rules contained in this section with respect to any advertisement, announcement, or solicitation relating to such deposits. No such person or organization shall advertise a percentage yield on any deposit it solicits for a member bank that is not authorized to be paid and advertised by such bank.

(i) **Money market time deposits.** Any advertisement, announcement, or solicitation relating to interest paid by a member bank on a time deposit of \$10,000 or more with a maturity of 26 weeks at a rate not in excess of the rate established (auction average on a discount basis) for United States Treasury bills with maturities of six months shall include a clear and conspicuous notice that Federal regulations prohibit the compounding of interest during the term of the deposit.

(SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS, is printed separately.)

STATUTORY APPENDIX

Section 19 of the Federal Reserve Act provides in part as follows:

(a) The Board is authorized for the purposes of this section to define the terms used in this section, to determine what shall be deemed a payment of interest, to determine what types of obligations, whether issued directly by a member bank or indirectly by an affiliate of a member bank or by other means, and, regardless of the use of the proceeds, shall be deemed a deposit, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this section and to prevent evasions thereof.

[U.S.C., title 12, sec. 461]

(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided*, That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to

this paragraph as soon as possible consistently with its contractual obligations: *Provided further*, That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further*, That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed.

[U.S.C., title 12, sec. 371a.]

(j) The Board may from time to time, after consulting with the Board of Directors of the Federal Deposit Insurance Corporation and the Federal

Home Loan Bank Board, prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rates of interest which may be paid by member banks on time and savings deposits. The Board may prescribe different rate limitations for different classes of deposits, for deposits of different amounts or with different maturities or subject to different conditions regarding withdrawal or repayment, according to the nature or location of member banks or their depositors, or according to such other reasonable bases as the Board may deem desirable in the public interest. No member bank shall pay any time deposit before its maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the said Board, or waive any requirement of notice before payment of any savings deposits except as to all savings deposits having the same requirements: *Provided*, That the provisions of this paragraph shall not apply to any deposit which is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member.

[U.S.C., title 12, sec. 371b. The first two sentences of this paragraph are, in part, temporary. Unless section 7 of the Act of September 21, 1966 (as amended by the Act of December 31, 1975) is modified, on December 15, 1978, such sentences will read as follows: "The Board of Governors of the Federal Reserve System shall from time to time prescribe rules governing the payment and advertisement of interest on deposits, including limitations on the rate of interest which may be paid by member banks on time and savings deposits, and shall prescribe different rates for such payment on time and savings deposits having different maturities, or subject to different conditions respecting withdrawal or repayment, or subject to different conditions by reason of different locations, or according to the varying discount rates of member banks in the several Federal Reserve districts."]

The Depository Institutions Deregulation Act of 1980 provides in part as follows:

Sec. 203. (a) The authorities conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. 371b), section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)), and section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) or by any other provision of Federal law, other than section 117 of the Federal Credit Union Act (12 U.S.C. 1763), to prescribe rules governing the payment of interest and dividends and the establishment of classes of deposits or accounts, including limitations on the maximum rates of interest and dividends which may be paid on deposits and accounts, and the authority conferred by the provisions of section 102 of Public Law 94-200 (12 U.S.C. 461 note) are hereby transferred to the Depository Institutions Deregulation Committee (hereinafter in this title referred to as the "Deregulation Committee").

(b) The Deregulation Committee shall consist of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, the Chairman of the Federal Home Loan Bank Board, and the Chairman of the National Credit Union Administration Board, who shall be voting members, and the Comptroller of the Currency who shall be a nonvoting member of the Deregulation Committee. The Deregulation Committee shall hold public meetings at least quarterly. All meetings of the Deregulation Committee shall be conducted in conformity with the provisions of section 522b of Title 5, United States Code. The Deregulation Committee may not take any action unless such action is approved by a majority vote of the voting members of the Deregulation Committee.

(c) The authorities conferred by this title on the Deregulation Committee and its members may not be delegated.

[U.S.C., title 12, sec. 3502.]