

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9360
September 9, 1982]

AMENDMENTS TO REGULATION Q

Book-Entry Time Deposits and Technical Amendments

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

The following statement has been issued by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board has issued notice of several amendments to its Regulation Q (Interest on Deposits).

One amendment permits member banks to issue all time deposits in book-entry form (computer recorded) rather than evidenced by a paper instrument.

The other amendments are technical changes in the regulation to conform it to recent actions concerning deposits by the Depository Institutions Deregulation Committee (DIDC).

Printed on the following pages is a summary of the Board's notice. The amendments, in slip-sheet form, will be sent to you when they become available. In the meantime, the full text of the Board's notice will be furnished upon request directed to the Circulares Division of this Bank (Tel. No. 212-791-5216).

Questions regarding the amendments should be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

Regulation Q

[12 CFR Part 217]

[Docket No. R-0421]

INTEREST ON DEPOSITS

Definition of Time Deposit and
Technical Amendments

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Final rule.

SUMMARY: The Board of Governors ("Board") has amended Regulation Q--Interest on Deposits (12 CFR Part 217) to permit member banks to issue all time deposits in book-entry form as an alternative to issuing certificates of deposit in definitive form. The Board also adopted technical amendments to conform Regulation Q to actions taken by the Depository Institutions Deregulation Committee ("DIDC").

EFFECTIVE DATE: September 1, 1982.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), Robert G. Ballen, Attorney (202/452-3265), or Beverly A. Belcamino, Legal Assistant (202/452-3623), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Federal Reserve Act authorizes the Board to define the term "time deposits" (12 U.S.C. § 461).^{1/} The Board's current Regulation Q defines "time deposit" to include "time certificates of deposit" and "time deposits, open account" (12 CFR § 217.1(b)). "Time certificate of deposit" is further defined, in part, as a deposit "evidenced by a negotiable or nonnegotiable instrument" payable "in

^{1/} The authority of the Board, the Federal Deposit Insurance Corporation, and the Federal Home Loan Bank Board to administer deposit interest rate ceilings was transferred to the DIDC by the Depository Institutions Deregulation Act of 1980 (Title II of P.L. 96-221). However, the Board retains the authority, pursuant to section 19(a) of the Federal Reserve Act, to define certain terms, including "time deposits" of member banks. Thus, the Board is authorized to determine the form in which obligations of member banks need be issued to be considered "time deposits."

all cases only upon presentation and surrender of the instrument" (12 CFR § 217.1(c)). Accordingly, member banks could issue time certificates of deposit only in definitive rather than book-entry form.^{2/} The Board has amended the definition of "time deposits" to allow member banks the option of issuing such time deposits in book-entry form. Authorization of the book-entry format for all time deposits likely will result in cost savings to depositors and institutions as well as facilitate the secondary market for time deposits that are negotiable.

The Board also has amended Regulation Q to bring it into conformity with actions taken by the DIDC. The following table presents the provisions of Regulation Q that have been amended by the DIDC's actions:

<u>DIDC Rule</u>	<u>Regulation Q Provision Amended</u>
1204.104--26-Week Money Market Time Deposits of Less Than \$100,000	217.7(f)
1204.106--Time Deposits of Less Than \$100,000 With Maturities of 2-1/2 Years to 4 Years	217.7(g)
1204.118--Individual Retirement Accounts and Keogh (H.R. 10) Plan Deposits of Less Than \$100,000	217.7(e) 217.7(g)
1204.119--Time Deposits of Less Than \$100,000 with Original Maturities of 3-1/2 Years or More	217.1(h) 217.7(b) 217.7(d) 217.7(h) 217.7(k)
1204.120--91-Day Time Deposits of Less Than \$100,000	217.4(d) (1) (iii) 217.6(i) 217.7(b) 217.7(d) 217.7(h) 217.7(j)

^{2/} Under current regulations, "time deposits, open account" are evidenced by "a written contract with the depositor" rather than a negotiable or nonnegotiable instrument. There is no requirement that such time deposits be payable only upon presentation and surrender of the instrument. Accordingly, member banks currently may issue "time deposits, open account" in book-entry form.

1204.121--Seven-to 31-Day Time
Deposits of \$20,000 or
More

217.1(b)
217.3(f)
217.4(d) (1) (iii)
217.4(d) (6)
217.4(f)
217.7(a)
217.7(b)
217.7(d)
217.7(h)
217.7(l)

1204.201--Establishment of
Interest Rates on
Deposits Not Subject
to Interest Rate
Ceilings

217.4(d) (5)

Since the Board believes that authorizing member banks to issue time deposits in book-entry form will result in substantial advantages for member banks and their customers, and because of the nonsubstantive nature of the amendment regarding the issuance of time deposits in book-entry form and the technical nature of the amendments conforming Regulation Q to actions of the DIDC, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to these actions is unnecessary and contrary to the public interest, and that good cause exists for making these actions effective immediately.

[For copy of regulatory language please contact your local Federal Reserve Bank or the Federal Reserve Board]

FEDERAL RESERVE SYSTEM

Regulation Q

[12 CFR Part 217]

[Docket No. R-0421]

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SUPPLEMENTARY INFORMATION: The Federal Reserve Act authorizes the Board to define the term "time deposits" (12 U.S.C. § 461).^{1/} The Board's current Regulation Q defines "time deposit" to include "time certificates of deposit" and "time deposits, open account" (12 CFR § 217.1(b)). "Time certificate of deposit" is further defined, in part, as a deposit "evidenced by a negotiable or nonnegotiable instrument" payable "in

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all cases only upon presentation and surrender of the instrument" (12 CFR § 217.1(c)). Accordingly, member banks could issue time certificates of deposit only in definitive rather than book-entry form.^{2/} The Board has amended the definition of "time deposits" to allow member banks the option of issuing such time deposits in book-entry form. Authorization of the book-entry format for all time deposits likely will result in cost savings to depositors and institutions as well as facilitate the secondary market for time deposits that are negotiable.

The Board also has amended Regulation Q to bring it into conformity with actions taken by the DIDC. The following table presents the provisions of Regulation Q that have been amended by the DIDC's actions:

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1204.121--Seven-to 31-Day Time Deposits of \$20,000 or More	217.1(b) 217.3(f) 217.4(d)(1)(iii) 217.4(d)(6) 217.4(f) 217.7(a) 217.7(b) 217.7(d) 217.7(h) 217.7(l)
1204.201--Establishment of Interest Rates on Deposits Not Subject to Interest Rate Ceilings	217.4(d)(5)

Since the Board believes that authorizing member banks to issue time deposits in book-entry form will result in substantial advantages for member banks and their customers, and because of the nonsubstantive nature of the amendment regarding the issuance of time deposits in book-entry form and the technical nature of the amendments conforming Regulation Q to actions of the DIDC, the Board finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to these actions is unnecessary and contrary to the public interest, and that good cause exists for making these actions effective immediately.

List of Subjects in 12 CFR Part 217

Advertising; Banks, banking; Federal Reserve System; Foreign Banking.

Pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. §§ 461, 371a, and 371b), the Board amends Regulation Q (12 CFR Part 217), effective September 1, 1982, as follows:

1. Section 217.1 is amended by revising paragraph (b), by removing paragraphs (c) and (d) and reserving them, by removing footnotes 2 and 3 and renumbering the remaining footnotes accordingly, and by revising paragraph (h) to read as follows:

SECTION 217.1 -- DEFINITIONS

* * * * *

(b) (1) "Time deposit" means (i) a deposit that the depositor does not have a right to withdraw for a period of 14 days or more after the date of deposit. "Time deposit" includes funds:

(A) payable on a specified date not less than 14 days after the date of deposit;

(B) payable at the expiration of a specified time not less than 14 days after the date of deposit;

(C) payable upon written notice which actually is required to be given by the depositor not less than 14 days before the date of repayment; ^{1/} or

(D) such as "Christmas club" accounts and "vacation club" accounts, that are deposited under written contracts providing that no withdrawal shall be made until a certain number of periodic deposits have been made during a period of not less than three months even though some of the deposits may be made within 14 days from the end of the period;

(ii) an "international banking facility time deposit;" and

(iii) a deposit or account issued pursuant to 12 CFR 217.7(1) or 1204.121, including those with an original maturity or notice period of seven to 13 days.

(2) A time deposit may be represented by a transferable or nontransferable, or a negotiable or nonnegotiable, certificate, instrument, passbook, statement or otherwise. A time deposit evidenced by a certificate or instrument is payable only upon presentation of the certificate or instrument. A time deposit established in statement, book-entry, or other form must be evidenced by a written agreement and deposits must be confirmed by issuance of a receipt or advice.

(c) [Reserved].

(d) [Reserved].

* * * * *

(h) Obligations issued by the parent bank holding company of a member bank. (1) For the purposes of this part, the "deposits" of a member bank also include an obligation that is (i) issued in a denomination of less than \$100,000; (ii) required to be registered with the Securities and Exchange Commission under the Securities Act of 1933; (iii) 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

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 deposit" within the meaning of the above definition.

Bank Holding Company Act of 1956, as amended (12 U.S.C. 1841-1850), regardless of the use of the proceeds; and (iv) issued with a stated maturity, notice period or redemption period of less than 3-1/2 years.

(2) (i) Effective April 1, 1983, this paragraph is amended by striking the term "3-1/2 years" wherever it appears and inserting in its place the term "2-1/2 years". (ii) Effective April 1, 1984, this paragraph is amended by striking the term "2-1/2 years" wherever it appears and inserting in its place "1-1/2 years". (iii) Effective April 1, 1985, this paragraph is amended by striking the term "1-1/2 years" wherever it appears and inserting in its place "6 months". (iv) Effective March 31, 1986, this paragraph is amended by striking the term "6 months" wherever it appears and inserting in its place "14 days".

(3) The term "deposits" does not include those obligations of a bank holding company that are subject to interest rate limitations imposed pursuant to Public Law 89-597.

* * * * *

2. Section 217.3 is amended by revising paragraph (f) to read as follows:

SECTION 217.3 -- INTEREST ON TIME AND SAVINGS DEPOSITS

* * * * *

(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 calendar days after a maturity date (one business day for deposits authorized by section 217.7(1)), 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.

* * * * *

3. Section 217.4 is amended by revising the first sentence in subparagraph (1)(iii) of paragraph (d), by revising subparagraphs (5) and (6) of paragraph (d), and by revising paragraph (f) to read as follows:

SECTION 217.4 -- PAYMENT OF TIME DEPOSITS BEFORE MATURITY

* * * * *

(d) * * *

(1) * * *

(iii) Except as provided in sections 217.7(j) and 217.7(1), the following minimum early withdrawal penalty shall apply to time deposit contracts entered into, renewed, or extended on or after June 2, 1980: * * *

* * * * *

(5) Except for time deposits on which no maximum interest rate limitation is prescribed, 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. Except as provided in section 217.7(1)(4), 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.

* * * * *

(f) Loans upon security of time deposits. Except as provided in section 217.7(1)(3), 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.

4. Section 217.6 is amended by revising paragraph (i) to read as follows:

SECTION 217.6 -- ADVERTISING OF INTEREST ON DEPOSITS

* * * * *

(i) Any advertisement, announcement, or solicitation relating to interest paid by a member bank on a time deposit issued pursuant to section 217.7(f) or section 217.7(j) shall include a clear and conspicuous notice that federal regulations prohibit the compounding of interest during the term of the deposit.

5. Section 217.7 is amended by revising paragraph (a), (b), (d), (e), (f), (g), and (h), and by adding new paragraphs (j), (k), and (l).

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 section 217.3 of this part, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates^{1/} 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 and IBF time deposits. Except for a time deposit issued subject to all the conditions of paragraph (l) or 12 CFR 1204.121, there is no maximum rate of interest presently prescribed on any time deposit of \$100,000 or more with a maturity of 14 days or more or on IBF time deposits issued under section 217.1(l).

(b) Fixed-ceiling time deposits. Except as provided in paragraphs (a), (d), (e), (f), (g), (i), (j), (k), and (l), no member bank shall pay interest on any time deposit at a rate in excess of the applicable rate under the following schedule:

<u>Maturity</u>	<u>Maximum Per Cent</u>
14 days or more but less than 90 days	5-1/4
90 days or more but less than 1 year	5-3/4
1 year or more but less than 2-1/2 years	6
2-1/2 years or more but less than 4 years	6-1/2
4 years or more but less than 6 years	7-1/4
6 years or more but less than 8 years	7-1/2
8 years or more	7-3/4

* * * * *

1/ * * *

(d) Governmental unit time deposits. Except as provided in paragraphs (a), (f), (g), (j), (k), and (l), and notwithstanding paragraph (b), 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. Notwithstanding paragraphs (b) and (g), a member bank may pay interest at any rate as agreed to by the depositor on any time deposit with a maturity of one and one-half 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) 219, 401, 404, 408 and related provisions. A member bank may permit additional deposits to be made to such a time deposit at any time prior to its maturity without extending the maturity of all or a portion of the entire balance in the account.

(f) 26-week money market time deposits. Except as provided in paragraph (a) and notwithstanding paragraphs (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 ceiling rates set forth below. The ceiling rate shall be based on the higher of either (1) The rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the auction held immediately prior to the date of deposit ("bill rate"), or (2) the average of the four rates established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the four auctions held immediately prior to the date of deposit ("four-week average bill rate"). Rounding any rate to the next higher rate is not permitted and interest may not be compounded during the term of this deposit.

<u>Bill rate or four-week average bill rate</u>	<u>Interest rate ceiling</u>
7.50 per cent or below	7.75 per cent
Above 7.50 per cent	One-quarter of one percentage point plus the higher of the bill rate or four-week average bill rate.

^{2/} * * *

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) 219, 401, 404, 408 and related provisions at a rate not to exceed the ceiling rate payable on the same category of deposit by any^{3/} federally insured savings and loan association or mutual savings bank.

(g) Time deposits with maturities of 2-1/2 years to less than 3-1/2 years. (1) Except as provided in paragraphs (a) and (e) and notwithstanding paragraphs (b) and (d), a member bank may pay interest on any nonnegotiable time deposit with an original maturity of 2-1/2 years to less than 3-1/2 years at a rate not to exceed the higher of one-quarter of 1 per cent below the average 2-1/2-year yield for U.S. Treasury securities as determined and announced by the U.S. Department of the Treasury immediately prior to the date of deposit, or 9.25 per cent. Such announcement is made by the U.S. Department of the Treasury every two weeks. The average 2-1/2-year yield will be rounded by the U.S. Department of the Treasury to the nearest 5 basis points. The rate paid on any such deposit cannot exceed the ceiling rate in effect on the date of 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 with a maturity of 2-1/2 years to less than 3-1/2 years 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

^{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 or four-week average bill rate is 7.25 per cent or lower, one-half of one per cent above the bill rate or four-week average bill rate when the bill rate or four-week average bill rate is above 7.25 per cent but below 8.50 per cent, 9.00 per cent when the bill rate or four-week average 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 or four-week average bill rate when the bill rate or four-week average bill rate is 8.75 per cent or above.

of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof 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/}

(2) Effective April 1, 1983, this paragraph is amended by striking the term "2-1/2 years to less than 3-1/2 years" wherever it appears and inserting in its place "1-1/2 years to less than 2-1/2 years", and by striking the term "average 2-1/2 year yield" wherever it appears and inserting in its place "average 1-1/2 year yield".

(h) Obligations of the parent bank holding company of a member bank. Interest may be paid on a deposit as defined in section 217.1(h) at a rate not to exceed the maximum rate payable by a member bank on a deposit of equal maturity and denomination. For purposes of this paragraph, the maturity of an obligation of a parent bank holding company is the lesser of the stated maturity period, notice period, or redemption period.

* * * * *

(j) 91-day time deposits. (1) Except as provided in paragraph (a) and notwithstanding paragraphs (b) and (d), a member bank may pay interest on any negotiable or nonnegotiable time deposit of \$7,500 or more, with a maturity of 91 days, at a rate not to exceed the ceiling rates set forth below. Rounding any rate upward is not permitted, and interest may not be compounded during the term of this deposit.

(2) (i) Except as provided in subparagraphs (ii) and (iii) below, the ceiling rate of interest payable by a member bank shall be the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 91 days at the auction held immediately prior to the date of deposit ("bill rate") minus one-quarter of one percentage point (25 basis points).

(ii) If the bill rate is 9 per cent or below at the four most recent auctions of U.S. Treasury bills with maturities of 91 days held immediately prior to the date of deposit, the ceiling rate of interest payable by a member bank shall be the bill rate.

(iii) Effective May 1, 1983, the ceiling rate of interest payable by a member bank on this category of deposit for deposits issued or renewed on or after that date shall be the bill rate.

(3) Where all or any part of a time deposit issued under this paragraph is paid before maturity, a depositor shall forfeit an amount equal to at least all interest earned on the amount withdrawn.

^{4/} * * *

(k) Time deposits with original maturities of 3-1/2 years or more.

(1) Notwithstanding paragraphs (b) and (d), a member bank may pay interest at any rate as agreed to by the depositor on any time deposit with an original maturity of 3-1/2 years or more that has no minimum denomination but is made available in a denomination of \$500.

(2) Any time deposit with an original maturity of 1-1/2 years or more issued pursuant to this paragraph may provide by contract that additional deposits may be made to the account for a period of one year from the date that it is established without extending the original maturity date of the account. Deposits made to the account more than one year after the date that it is established shall extend the maturity of the entire account for a period of time at least equal to the original term of the account.

(3) Any time deposit offered pursuant to this paragraph may be issued in a negotiable or nonnegotiable form.

(4) (i) Effective April 1, 1983, this paragraph is amended by striking the term "3-1/2 years" wherever it appears and inserting in its place the term "2-1/2 years".

(ii) Effective April 1, 1984, this paragraph is amended by striking the term "2-1/2 years" wherever it appears and inserting in its place "1-1/2 years".

(iii) Effective April 1, 1985, this paragraph is amended by striking the term "1-1/2 years" wherever it appears in subparagraph (1) and inserting in its place "6 months".

(1) Seven-to-31 day time deposits of \$20,000 or more. (1) Notwithstanding paragraphs (b) and (d), a member bank may pay interest on any nonnegotiable time deposit of \$20,000 or more, with a maturity or required notice period of not less than seven days nor more than 31 days, at a rate not to exceed the ceiling rates set forth below. However, a member bank shall not pay interest in excess of the ceiling rate for regular savings deposits or accounts on any day the balance in a time deposit issued under this paragraph is less than \$20,000. Rounding any rate upward is not permitted.

(2) (i) For fixed interest rate, fixed maturity time deposits issued under this paragraph, the ceiling rate of interest payable by a member bank shall be the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 91 days at the auction held immediately prior to the date of deposit or renewal ("bill rate") minus one-quarter of one percentage point (25 basis points).

(ii) For variable interest rate, fixed maturity time deposits and for all notice accounts issued under this paragraph, the ceiling rate of interest payable by a member bank shall be the bill rate in effect on the date of opening or renewal of the account minus one-quarter of one percentage point (25 basis points). The interest rate on the account then may be adjusted to be not in excess of the bill rate, minus 25 basis points, established and announced at the most recent subsequent auction during the life of the deposit but not less often than every 31 days.

(iii) Notwithstanding subparagraphs (2) (i) and 2(ii) of this paragraph, a member bank may pay interest at a rate not to exceed the bill rate on any time deposit issued under this paragraph which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(A) 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

(B) an individual pursuant to an individual retirement account agreement or Keogh (H.R. 10) plan established pursuant to 26 U.S.C. (IRC 1954) 219, 401, 404, 408 and related provisions.

(iv) The ceiling rates in subparagraphs (2) (i), (2) (ii) and (2) (iii) of this paragraph shall not apply

(A) if the bill rate is 9 per cent or below at the four most recent auctions of U.S. Treasury bills with maturities of 91 days held prior to the date of deposit or renewal. A member bank may pay interest at any rate as agreed to by the depositor on this category of deposit for deposits issued or renewed during such period; or

(B) effective May 1, 1983. A member bank may pay interest at any rate as agreed to by the depositor on this category of deposit for deposits issued or renewed on or after May 1, 1983.

(3) (i) A member bank is not permitted

(A) to lend funds to a depositor upon the security of a time deposit that it has issued under this paragraph, or

(B) to lend funds to a depositor to meet or maintain the minimum denomination requirement of a time deposit issued under this paragraph.

(ii) The rate of interest and any other charges imposed on an overdraft credit arrangement to which withdrawals are paid or to which payments upon maturity or expiration of a required notice period

are made from an account issued under this paragraph must be not less than those imposed on such overdrafts for customers that do not possess an account issued under this paragraph at the same institution.

(4) (i) Where all or any part of a time deposit issued under this paragraph is paid before maturity or expiration of the required notice period, a depositor shall forfeit an amount at least equal to the greater of

(A) all interest earned on the amount withdrawn from the most recent of the date of deposit, date of maturity, or date on which notice was given, or

(B) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or required notice period.

(ii) Where all or any part of a time deposit issued under this paragraph is withdrawn within one business day after the maturity date of the deposit or the date of expiration of notice of withdrawal, no early withdrawal penalty is required to be applied on the amount withdrawn.

(5) Additional deposits to an account issued under this paragraph with a fixed maturity must be maintained in the account for a period at least equal to the original term of the account and may be regarded as having matured individually and having been redeposited at intervals equal to such period. For accounts issued under this paragraph that are subject to a notice period, additional deposits must remain in the account for a period equal to at least the notice period before such funds may be withdrawn without the imposition of an early withdrawal penalty.

(6) Deposits to any account issued under this paragraph may not be made by automatically transferring funds from another account of the depositor at the same institution where the transfer is initiated by the level of the balance in any account.

(7) (i) Withdrawals from any account issued under this paragraph may not be made (A) by check, draft, or other third party payment instrument or instruction drawn or issued by the depositor, or (B) by automatically transferring funds to another account of the depositor where the transfer is initiated by the level of balance in any account held by the depositor.

(ii) Payments at maturity or withdrawals may be paid by (A) check or cash to the depositor, (B) cash, draft, or electronic

transfer issued by the institution to a third party, or (C) transfer to any other account held by the depositor.

(iii) Notice of withdrawal of an account issued under this paragraph may be delivered by the depositor to the institution by telephone or other telecommunication, mail, messenger, standing order, or by appearance in person at the offices or premises of the institution.

By order of the Board of Governors, September 2, 1982.

(signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]