

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 5371]
[August 16, 1963]

PAYMENT OF INTEREST ON TIME AND SAVINGS DEPOSITS

Revision of Operating Circular No. 15

*To All Member Banks in the
Second Federal Reserve District:*

Enclosed is a copy of Operating Circular No. 15, Revised August 16, 1963, entitled "Payment of Interest on Time and Savings Deposits."

The circular has been revised primarily to take into account an amendment to General Regulation No. 3 of the Banking Board of the State of New York, effective July 17, 1963, that conforms to the changes in the Supplement to Regulation Q of the Board of Governors of the Federal Reserve System effective the same day. Those changes, announced in our Circular No. 5358, increased to 4 per cent the maximum rate of interest that member banks may pay on time deposits and certificates with maturities from 90 days to one year.

The revised circular also reflects an amendment to General Regulation No. 3, effective July 31, 1963, relating to interest on savings deposits held for one year or more. This amendment has the effect of permitting both national banks and State member banks located in the State of New York to pay interest on such deposits at a maximum rate of 4 per cent from the day of deposit. There has been no change in the requirements of the Supplement to Regulation Q and General Regulation No. 3 limiting to 3½ per cent the rate of interest that may be paid by such banks on savings deposits held for less than one year.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.

FEDERAL RESERVE BANK
OF NEW YORK

[Operating Circular No. 15]
[Revised August 16, 1963]

PAYMENT OF INTEREST ON TIME AND
SAVINGS DEPOSITS

*To All Member Banks in the
Second Federal Reserve District:*

This circular contains information regarding the maximum rates of interest that member banks in the Second Federal Reserve District may lawfully pay on time and savings deposits.

Statutory provisions

1. Section 19 of the Federal Reserve Act (hereinafter referred to as the "Act") provides generally, among other things, that no member bank shall pay any interest on any deposit payable on demand, and that the Board of Governors of the Federal Reserve System shall, by regulation, limit the rate of interest that may be paid by member banks on time and savings deposits;¹ and authorizes the Board of Governors to define certain terms used in the Act, to determine what shall be deemed a payment of interest, and to prescribe rules and regulations to effectuate the purposes of the section.

Regulation Q

2. Under authority of the provisions of Section 19 of the Act, the Board of Governors of the Federal Reserve System has issued Regulation Q, entitled "Payment of Interest on Deposits." Reference is made to the Regulation for the definitions of terms used in the Act and for details of the prohibition against the payment of interest on deposits payable on demand and the limitations upon the payment of interest on time and savings deposits.

Supplement to Regulation Q

3. The Supplement to Regulation Q, effective July 17, 1963, prescribes the maximum rates of interest that member banks may pay on time and savings deposits.¹ We will promptly notify our member banks of any change in these rates. In an interpretation of the Supplement to Regulation Q with respect to savings deposits, the Board of Governors stated that where interest is paid at a rate of 3½ per cent or less when a savings deposit has been in a bank for less than 12 months, and the deposit continues in the bank for 12 months, the bank may then pay such additional interest as will not cause the rate for such period to exceed 4 per cent. For example, if \$1,000 is deposited July 1,

¹ The foregoing provisions are not applicable: (a) to any deposit that is payable only at an office of a member bank located outside of the States of the United States and the District of Columbia; and (b) during the three-year period beginning October 15, 1962, to 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.

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1963, and the bank thereafter credits $3\frac{1}{2}$ per cent interest, and if that amount remains on deposit until July 1, 1964, the bank may then credit an additional $\frac{1}{2}$ of 1 per cent on that amount from July 1, 1963, so that interest for the 12 months would be at the rate of 4 per cent.²

Member banks limited to maximum rate for State banks

4. Section 24 of the Act provides that the rate of interest that a national banking association may pay upon time deposits or upon savings deposits shall not exceed the 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 association is located.

5. Section 217.3(c) of Regulation Q provides that the rate of interest paid by a member bank on a time deposit or savings deposit shall not exceed either the applicable maximum rate prescribed in the Supplement to Regulation Q, or 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.

Banks located in the State of New York

6. General Regulation No. 3 (Amendment) of the Banking Board of the State of New York, effective July 31, 1963, provides, among other things, for a scale of maximum rates of interest that banks and trust companies organized under the laws of the State of New York may pay on time and savings deposits. The maximum rates of interest prescribed by General Regulation No. 3 for time and savings deposits in commercial banks and trust companies organized under the laws of the State of New York are identical with those prescribed by the Board of Governors of the Federal Reserve System in the Supplement to its Regulation Q.

Banks located in Connecticut and New Jersey

7. The States of Connecticut and New Jersey have not established maximum rates of interest on time and savings deposits payable by commercial banks and trust companies organized under the laws of those States. However, member banks in such States are subject to Regulation Q.

Revision of this circular

8. The right is reserved to withdraw, add to, or amend at any time, any of the provisions of this circular.

Effect of this circular on previous circular

9. This circular supersedes our Operating Circular No. 15, Revised April 2, 1962.

² See *Federal Reserve Bulletin*, December 1961, page 1404, and this Bank's Circular No. 5120.

ALFRED HAYES,
President.