FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 7177
July 5, 1973]

REGULATION Q

— Changes in Interest Rate Ceilings

— Payment of Time Deposits Prior to Maturity

To All Member Banks, and Others Concerned,
in the Second Federal Reserve District:

Following is the text of a statement issued today by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today an increase in the maximum rates of interest that member banks may pay on passbook savings and other types of consumer deposits, retroactive to July 1.

Today's action amending the Board's Regulation Q will:

— Permit member banks to increase from 4.5 per cent to 5 per cent the maximum rate of interest they may pay on passbook savings deposits.

— Authorize member banks to increase by one-fourth to three-fourths of a percentage point the maximum interest rate payable on consumer-type time deposits — those of less than $100,000.

— Establish a new category of consumer time deposit on which member banks are not limited as to the amount of interest they wish to pay. To be eligible, the deposit must mature in four years or more with a minimum denomination of $1,000.

The Board's actions, along with changes in interest rate ceilings being made by other regulatory agencies, have a two-fold objective: They are designed to provide room within the ceilings for a greater measure of equity in the payment of interest to consumers, in an environment where interest rates generally have been rising. They also should enable member banks, and other financial institutions, to bid more effectively for consumer deposits in competition with the yields available to savers on market securities.

Revisions in the interest rate ceilings were made by the Board after consultation with the Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board. These agencies have parallel regulatory authority over the maximum rates of interest that may be paid by insured State-chartered banks that are not members of the Federal Reserve System, Federally insured mutual savings banks, and savings and loan associations. These agencies are also announcing changes today in ceiling interest rates for the institutions they regulate.

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In its action, the Board of Governors approved the following maximum rate structure for consumer deposits at banks that are members of the Federal Reserve System, namely, all national banks and State member banks:

Maturity	*New Ceiling (Percent)*	*Old Ceiling (Percent)*	
Passbook accounts	5.0	4.5	
90 days to 1 year	5.5	5.0	
1 year to 2½ years	6.0	5.5	(for deposits of 1 year to 2 years)
		5.75	(for deposits of 2 years and over)
2½ years and over	6.5	5.75	(for deposits of 2 years and over)
4 years and over	No ceiling with minimum denomination of $1,000	5.75	(for deposits of 2 years and over)

The new schedule of ceilings, which member banks may make effective with the interest-crediting period beginning July 1, will apply to both single and multiple-maturity deposits. Single-maturity deposits have one expiration date. Multiple-maturity time deposits include deposits that are renewed automatically at maturity without action by the depositor and deposits that are payable after written notice of withdrawal.

Ceilings on single-maturity time deposits of $100,000 and over that mature in 90 days or more were suspended by the Board on May 16 as part of a series of actions designed to curb the rapid expansion in bank credit and help moderate inflationary pressures. Ceilings on large time deposits maturing in less than 90 days were suspended in 1970.

Ceilings on consumer-type deposits were last increased on January 21, 1970. Such ceilings represent only the maximum amount of interest that banks may pay on deposits. Member banks are free to pay a lesser rate of interest if they so desire.

In a related action, the Board announced a change in that part of its regulation that permits the payment of a time deposit prior to maturity. Under the present regulation, a bank may pay a time deposit before maturity only "in an emergency where it is necessary to prevent great hardship to the depositor." Under the new rule, a bank may pay a time deposit at any time before maturity but only at a reduced rate of interest to the depositor. In such cases, a bank may pay the depositor interest at no more than the passbook rate for the period held less three months. Banks are permitted to pay a rate of interest on time deposits higher than that allowed on passbook savings accounts because of the underlying agreement that the time account money will remain on deposit for a specified period of time. Normally, a passbook account provides a depositor with greater liquidity because he can withdraw funds at any time, although the bank may require 30-days written notice of an intended withdrawal.

Copies of the amendment and revised Supplement to Regulation Q reflecting these changes will be sent to you shortly.

Alfred Hayes,
President.