Copies of Amendments and Revised Supplement to Regulation Q

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

Our Circular No. 7289, dated December 7, 1973, contained the text of a statement, issued by the Board of Governors of the Federal Reserve System, announcing the adoption, effective January 1, 1974, of rules under which customers of member banks in Massachusetts and New Hampshire may write negotiable orders of withdrawal (NOWs) against interest-bearing savings accounts.

Enclosed are copies of amendments and a revised Supplement, both effective January 1, 1974, to the Board of Governors’ Regulation Q, “Interest on Deposits,” reflecting the Board’s action. In submitting the material for publication in the Federal Register, the Board made the following additional statement:

On September 14, 1973, the Board of Governors invited public comment on a Statement of Proposed Policies to regulate the use of interest-bearing accounts from which a depositor is allowed to make transfers of funds by negotiable orders of withdrawal (NOWs). Section 2(a) of P.L. 93-100 permits NOWs to be made only in the States of Massachusetts and New Hampshire. After consideration of all comments received and after consulting with the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Comptroller of the Currency, the Board has amended its Regulation Q so as to prescribe rules governing the use of NOWs within Massachusetts and New Hampshire. Pursuant to P.L. 93-100 and the Board’s authority under section 19 of the Federal Reserve Act to prescribe rules governing the payment of interest on deposits, the amendment treats deposits on which NOWs may be drawn as savings deposits and thereby limits use of NOWs to individuals and certain non-profit organizations. The maximum rate of interest that may be paid on NOW accounts is 5 per cent, the maximum rate currently prescribed for savings deposits in member banks.

The amendment limits the number of NOWs that may be accepted by a member bank from a customer to 150 per year. In addition, consistent with the Congressional intention that the use of NOWs be confined to the States of Massachusetts and New Hampshire, the Board has amended the advertising provisions of Regulation Q to restrict the advertisement, announcement and solicitation of NOWs by member banks to media directed toward residents of Massachusetts and New Hampshire. The Board’s intention in imposing these advertising limitations is to confine the use of NOWs to persons residing or employed in those two states and to current customers of member banks in those states.

The effective date of these amendments was deferred for less than the 30-day period referred to in Title 5, United States Code, section 553(d), because the Board found that the public interest compelled it to make the action effective no later than the date adopted. See § 262.2(e) of the Board’s Rules of Procedure (12 CFR 262.2(e)).

Additional copies of the enclosures will be furnished upon request.

Alfred Hayes,
President.
Pursuant to section 19 of the Federal Reserve Act and § 217.3 hereof, the Board of Governors of the Federal Reserve System hereby prescribes the following maximum rates 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) Time deposits of less than $100,000.

1 The limitations 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.

(1) Except as provided in paragraph (a) and subpart (2) of this paragraph, no member bank shall pay interest on any time deposit at a rate in excess of the applicable rate under the following schedule:

<table>
<thead>
<tr>
<th>Maturity</th>
<th>Maximum per cent</th>
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<tbody>
<tr>
<td>30 days or more but less than 90 days</td>
<td>5</td>
</tr>
<tr>
<td>90 days or more but less than 1 year</td>
<td>5½</td>
</tr>
<tr>
<td>1 year or more but less than 30 months</td>
<td>6</td>
</tr>
<tr>
<td>30 months or more</td>
<td>6½</td>
</tr>
</tbody>
</table>

(2) Member banks may pay interest on any time deposit of $1,000 or more, with a maturity of four years or more, at a rate not to exceed 7½ per cent.

(c) Savings deposits. No member bank shall pay interest at a rate in excess of 5 per cent on any savings deposit including savings deposits that are subject to negotiable orders of withdrawal, the issuance of which is authorized by Federal law.
Effective January 1, 1974:

1. Section 217.1 is amended by adding a new subparagraph (3) to paragraph (e) of that section, to read as follows:

**SECTION 217.1—DEFINITIONS**

* * *

(e) Savings deposits. * * *

* * *

(3) In those states where banks are permitted to offer deposits subject to negotiable orders of withdrawal, such deposits may be maintained only by individuals and organizations permitted to maintain savings deposits under subparagraph (1) of this paragraph.

2. Section 217.5 is amended by amending paragraph (c) of that section, as follows:

**SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS**

* * *

(c) Manner of payment of savings deposits.

(1) Subject to the provisions of subparagraphs (2) and (3) of this paragraph, * * *

* * *

(3) The provisions of this paragraph do not apply to deposits subject to negotiable orders of withdrawal authorized by Federal law to be issued in the states of Massachusetts and New Hampshire which shall be subject to the limitation that no member bank may accept more than 150 negotiable orders of withdrawal during any calendar year on any deposit subject to such orders.

(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 from such a deposit shall be entered in the passbook as soon as practicable after withdrawal is made.

3. Section 217.6 is amended by adding a new paragraph (i), to read as follows:

**SECTION 217.6—ADVERTISING OF INTEREST ON DEPOSITS**

* * *

(i) Negotiable Orders of Withdrawal. In addition to compliance with the other paragraphs of this section, member banks offering accounts subject to negotiable orders of withdrawal, to the extent practicable, shall limit every advertisement, announcement or solicitation made in any newspaper, magazine, radio, television or other media to such facilities directed toward residents of New Hampshire and Massachusetts. All other advertisements, announcements and solicitations of such accounts, including direct mailing, circulars, and notices, whether written or oral, to the extent practicable, shall be directed only to persons residing or employed in New Hampshire and Massachusetts and to persons who are customers of member banks in those states on the effective date of this amendment.