

FEDERAL RESERVE BANK  
OF NEW YORK

[Circular No. 7769]  
December 10, 1975]

INDIVIDUAL RETIREMENT ACCOUNTS  
Amendment and Supplement to Regulation Q

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

Following is the text of a statement issued December 4 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today amended its Regulation Q—"Interest on Deposits"—to facilitate the establishment by eligible individuals of Individual Retirement Accounts (IRA).

The Employee Retirement Income Security Act of 1974 permits individuals not covered by a retirement plan to deposit up to \$1,500 a year or 15 per cent of gross income, whichever is less, in special tax-deferred retirement accounts. Last June 26 the Board invited public comment on a number of questions relating to IRAs and its action today was taken in light of comment received. The amendments, effective immediately, are:

1. Member banks may pay all, or a portion, of an IRA time deposit prior to its maturity, without penalty for early withdrawal, when the individual for whose benefit the account is established is 59½ years of age or more, or becomes disabled.
2. Member banks may waive, for the purposes of IRA accounts, the \$1,000 minimum required for time deposits with four to six year maturities.

The first amendment would permit a depositor who had established—say—a five-year deposit, to make withdrawals from it without penalty before the end of five years if the depositor becomes 59½ years of age, or becomes disabled. Regulation Q normally requires a penalty in the form of a loss of interest when time deposits are withdrawn before maturity. This amendment gives full effect to the provision of the IRA statute authorizing withdrawal from IRA accounts when the depositor attains the age of 59½, or is disabled. Regulation Q already provides that early withdrawals may be made from time deposits without penalty in the case of death of the depositor.

As a result of this amendment, member banks may distribute the proceeds of an IRA account in a single payment, without penalty, when the distribution is made in conformance with the IRA agreement between the bank and the depositor. Or, member banks may establish IRAs from which periodic, annuity-like payments may be made, with no reduction in the rate of interest paid.

The second amendment to Regulation Q permits member banks to pay the 7¼ per cent interest available for four-year time deposits, or the 7½ per cent interest available for six-year deposits, without requiring the usual minimum of \$1,000, since some depositors may not have such a sum to begin with. The Board believes this serves the intent of Congress in the IRA statute to encourage individuals to save for retirement.

In order to obtain the tax deferral benefits of an IRA account for the year 1975, depositors must have established IRA agreements by December 31, 1975.

IRAs already in existence may be amended to incorporate today's changes, which apply solely to IRA accounts.

The Board is continuing to examine another question raised in its June 26 request for comment: whether elimination of the quarter of one per cent differential in interest rate ceilings that now prevails, for time deposits, between commercial banks and thrift institutions is appropriate in the case of long term IRA accounts.

In submitting the amendments for publication in the *Federal Register*, the Board of Governors made the following additional statement:

On June 26, 1975, the Board invited public comment on several issues relating to Individual Retirement Accounts ("IRAs") and possible amendments to Regulation Q (Interest on Deposits) in view of the

enactment of the Employee Retirement Income Security Act of 1974 (Pub.L. 93-406), which provides, in part, for the establishment of IRAs by individuals not covered by employer pension plans (40 FR 28644). After review and consideration of all comments received, the Board has amended Regulation Q to facilitate the offering of IRAs by member banks.

The first amendment adopted will permit a member bank to pay all or a portion of an IRA time deposit in accordance with the payout terms of the IRA agreement prior to maturity without imposing the Regulation Q interest penalty when the individual for whose benefit the account is maintained attains age 59½ or upon the individual's disability. Existing provisions of Regulation Q permit member banks to pay time deposits before maturity without imposing an interest penalty upon the death of any person whose name appears on the time deposit passbook or certificate. The second amendment to Regulation Q adopted by the Board will permit member banks to waive the \$1,000 minimum denomination requirement for time deposits with 4- and 6-year maturities at ceiling rates of 7¼ and 7½ per cent when such deposits are made pursuant to IRA agreements. The purposes of these amendments are to facilitate the establishment of IRAs pursuant to Congress's intent to encourage individuals not participating in other pension plans to save for their retirement and to provide a convenient means for payout of such funds in the future.

The Board has determined that imposition of the Regulation Q penalty for withdrawals prior to the maturity of the time deposit in instances where withdrawals of IRA funds are legislatively authorized by the IRA statute (upon the individual's attaining the age of 59½ or upon disability or death) is generally inappropriate in view of Congress's intent to encourage individuals to save for their future needs. The Board also believes that elimination of the penalty for withdrawals under these circumstances will facilitate the orderly administration of IRA deposits by member banks. As a result of this amendment, member banks will be permitted to distribute the IRA deposit balance in a single sum payment without penalty when such distribution is made in accordance with the terms of the IRA agreement between the bank and the depositor. In addition, member banks may establish IRAs from which a depositor may receive periodic, annuity-like payments with no reduction in the rate of interest paid where funds are paid prior to maturity. The following example indicates the possible operation of this amendment:

An individual maintains his IRA funds in a time deposit that matures every six years. The IRA agreement between the bank and the individual may contain the provision that upon the individual's achieving age 59½ or upon his/her disability (defined in accordance with 26 U.S.C. 72(m)(7)), or upon his/her death, the bank agrees to pay the depositor or his/her heirs the deposit balance in the IRA or, on a periodic basis, a sum equivalent to a specified portion of the deposit balance for a period of years in accordance with the provisions of the Internal Revenue Code relating to distributions of IRA funds. During the payout period, the bank may continue to pay the contractually agreed-upon rate of interest on the funds remaining on deposit despite the fact that in order to satisfy the requirements of the payout schedule the funds may be required to be withdrawn prior to the stated maturity of the time deposit instrument.

The Board has determined that it is appropriate to waive the \$1,000 minimum required to obtain 4- and 6-year time deposits at ceiling rates of 7¼ and 7½ per cent for funds deposited pursuant to IRA agreements in view of the long-term nature of IRAs and in view of Congress's intent to encourage individuals to save for their retirement. Since virtually all IRAs will ultimately contain in excess of \$1,000 per account, the Board believes that waiver of the \$1,000 minimum requirement will facilitate the operation of IRAs by eliminating the need for individuals to maintain IRA deposits at lower interest rates until the \$1,000 minimum is obtained. Waiver of the minimum requirement will also permit member banks to pay higher rates on IRA funds at the inception of the IRA, thereby encouraging the establishment of IRAs in general.

The Board has also determined that member banks may amend IRA agreements established prior to the effective date of these amendments in order to incorporate the benefits of these provisions. Accordingly, the Board orders that member banks may increase the rate of interest paid on existing IRA time deposits and/or change the maturity of existing IRA time deposits without imposition of the Regulation Q penalty for early withdrawal.

The provisions adopted apply solely to funds deposited pursuant to IRA plans and not to HR-10 (Keogh) plans. The Board believes that the differences in the statutory provisions relating to the administration and operation of HR-10 (Keogh) plans require further study in order to determine whether the amendments adopted should be made applicable to deposits held by member banks pursuant to such plans.

In its notice of June 26, 1975, the Board requested public comment on whether member banks should be permitted to pay interest on IRA deposits at rates that are equal to those that may be paid by savings and loan associations and mutual savings banks. In view of Congress's intent to encourage individuals to save for their retirement and in view of the fact that IRA deposits will generally remain on deposit at financial institutions for long periods of time, the Board is continuing to examine the question of whether elimination of the differential in interest rate ceilings is appropriate for IRA deposits.

The amendments adopted by the Board are intended to encourage individuals to establish IRAs. In order to obtain the tax deferral benefits of IRA deposits for the year 1975, depositors must have established IRA

agreements by December 31, 1975. In response to notice published in the *Federal Register*, the Board has received and carefully reviewed more than 350 comments concerning issues raised by member banks offering IRA plans under the Board's existing regulations. On the basis of these comments, the Board believes that it has obtained a broad and representative sampling of views and recommendations pertaining to the offering of IRAs by financial institutions. In view of the substantial public benefits resulting from adoption of the Board's amendments as soon as possible, the Board finds that notice and public procedure are impracticable and contrary to the public interest. Since the amendments are more permissive than existing regulations and relieve existing regulatory restrictions, and because of the need to adopt the amendments before year-end, the Board has determined that good cause exists to make the amendments effective immediately.

Enclosed is a copy of an amendment and Supplement, both effective December 4, 1975, to the Board's Regulation Q, reflecting these changes. Any questions regarding this matter may be directed to our Bank Regulations Department. Additional copies of the enclosures will be furnished upon request.

PAUL A. VOLCKER,  
*President.*

Board of Governors of the Federal Reserve System

SUPPLEMENT TO REGULATION Q

Effective December 4, 1975

SECTION 217.7—MAXIMUM RATES OF INTEREST PAYABLE  
BY MEMBER BANKS ON TIME AND SAVINGS DEPOSITS

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<sup>1</sup> 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) Except as provided in paragraphs (a) and (d) and subparts (2) and (3) 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:

<i>Maturity</i>	<i>Maximum per cent</i>
30 days or more but less than 90 days	5
90 days or more but less than 1 year	5½
1 year or more but less than 30 months	6
30 months or more	6½

<sup>1</sup> 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.

(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 7¼ per cent.<sup>2</sup>

(3) **Investment Certificates**—Member banks may pay interest on any time deposit of \$1,000 or more, with a maturity of six years or more, at a rate not to exceed 7½ per cent.<sup>2</sup>

(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.

(d) **Governmental unit time deposits of less than \$100,000.** Except as provided in paragraph (a), 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 the highest of any of the permissible rates than can be paid on time deposits under \$100,000 by any Federally insured commercial bank, mutual savings bank or savings and loan institution.<sup>3</sup>

<sup>2</sup> The \$1,000 minimum denomination requirement does not apply to time deposits representing funds contributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) § 408.

<sup>3</sup> The highest permissible rate is currently 7.75 per cent per annum (12 CFR 329.7 and 12 CFR 526.5).

PRINTED IN NEW YORK

[Enc. Cir. No. 7769]

Board of Governors of the Federal Reserve System

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

1. Effective December 4, 1975, section 217.4(d) is amended by adding a sentence to the end thereof, to read as follows:

SECTION 217.4—PAYMENT OF TIME  
DEPOSITS BEFORE MATURITY

\* \* \*

(d) **Penalty for early withdrawals.** \* \* \*  
Where a time deposit representing funds contributed to an Individual Retirement Account established pursuant to 26 U.S.C. (I.R.C. 1954) § 408 is paid before maturity when the individual for whose benefit the account is maintained attains age 59½ or is disabled (as defined in 26 U.S.C. (I.R.C. 1954) 72(m)(7)) or thereafter, a member bank may pay all or a portion of such time deposit without a reduction or forfeiture of interest as prescribed by this paragraph.

PRINTED IN NEW YORK

[Enc. Cir. No. 7769]