TEMPORARY SUSPENSION OF REGULATION Q PENALTY

Special Emergency Financial Assistance to Victims of the Teton Dam Collapse

To All Member Banks, and Others Concerned,

in the Second Federal Reserve District:

The Board of Governors of the Federal Reserve System has temporarily suspended, through December 31, 1976, the Regulation Q penalty for the withdrawal of time deposits from member banks prior to maturity by depositors affected by the collapse of the Teton Dam on June 5, 1976. Following is the text of a statement issued June 25 by the Board of Governors:

The Board of Governors of the Federal Reserve System today made it possible for member banks to give special emergency financial assistance to victims of the Teton Dam collapse.

The Board's action applies to individuals or businesses who suffer financial loss, due to the bursting of the dam, in the five-county area of Idaho declared a major disaster area by the President on June 6 (Bonneville, Fremont, Madison, Jefferson and Bingham counties).

To assist victims of the disaster, the Board gave permission to member banks, and encouraged them, to permit early withdrawal of time deposits without penalty, upon a showing that the depositor has suffered a loss related to the disaster.

The Board's action is retroactive to June 6, 1976, and will remain in effect through December 31, 1976. The action applies to time depositors in a member bank located anywhere, if the depositor suffered a loss in the five-county area related to the rupture of the dam.

A time deposit is money left on deposit with a bank for a specified period of time, in return for payment of interest at a rate higher than would be given for passbook savings. The Board's Regulation Q provides that if part or all of a deposit is withdrawn before the end of the contract period (except in certain circumstances such as in the case of death of the depositor) the depositor shall be penalized.

The penalty is reduction of the rate of interest paid on the deposit to the passbook rate for the period the deposit has been held, and a loss of three month's interest. The Board's action suspends the penalty rule for depositors who suffer losses in the disaster area.

The Board's action is designed to give financial relief in two forms: (1) to make time deposit savings immediately available to those suffering losses related to the flood, (2) and to do this without loss of previously earned interest.

The Federal Deposit Insurance Corporation and the Federal Home Loan Bank Board are taking similar actions for financial institutions under their jurisdictions.

Enclosed is a copy of the Board's Order in this matter. Any questions regarding the Board's action may be directed to our Bank Regulations Department.

PAUL A. VOLCKER,
President.
Board of Governors of the Federal Reserve System

REGULATION Q

SECTION 217.4—PAYMENT OF TIME DEPOSITS BEFORE MATURITY

Order Granting Temporary Suspension of Early Withdrawal Penalty

Effective June 6, 1976 through December 31, 1976

§217.4(d)—Penalty for early withdrawals.

The Board has suspended temporarily the Regulation Q penalty for the withdrawal of time deposits prior to maturity from member banks (12 CFR 217.4(d)) for depositors affected by the collapse of the Teton Dam on June 5, 1976. On June 6, 1976, the President, pursuant to section 301 of the Disaster Relief Act of 1974 (42 U.S.C. 5141), designated the following Idaho counties a major disaster area: Bingham, Bonneville, Fremont, Jefferson and Madison. The Board regards the President’s action as recognition by the Federal government that a disaster of major proportions has occurred. The President’s designation enables victims of the disaster to qualify for special emergency financial assistance. The Board believes it appropriate to provide an additional measure of assistance to flood victims by temporarily suspending the Regulation Q early withdrawal penalty.¹ The Board’s action permits a member bank to pay a time deposit before maturity without imposing this penalty upon a showing that the depositor has, in fact, suffered property or other financial loss in the disaster area as a result of the collapse of the Teton Dam. A member bank should obtain from a depositor seeking to withdraw a time deposit pursuant to this action a signed application describing fully the disaster-related loss. This application should be approved and certified by an officer of the bank. This action will be retroactive to June 6, 1976, and will remain in effect until 12 midnight December 31, 1976.

¹ Section 217.4(d) of Regulation Q provides that where a time deposit, or any portion thereof, is paid before maturity, a member bank may pay interest on the amount withdrawn at a rate not to exceed that currently prescribed for a savings deposit and that the depositor shall forfeit three months of interest payable at such rate.

Section 19(j) of the Federal Reserve Act (12 U.S.C. 371b) provides that no member bank shall pay any time deposit before maturity except upon such conditions and in accordance with such rules and regulations as may be prescribed by the Board. Pursuant to §19(j) the Board has determined it to be in the overriding public interest to suspend the penalty provision prescribed in §217.4(d) of Regulation Q for the benefit of depositors suffering disaster-related losses within those counties of the State of Idaho officially designated a major disaster area by the President. This action will be effective from June 6, 1976, until 12 midnight December 31, 1976. The Board, in granting this temporary suspension, encourages member banks to permit penalty-free withdrawal before maturity of time deposits for depositors who have suffered disaster-related losses within the designated disaster area.

In view of the urgent need to provide immediate assistance to relieve the financial hardship being suffered by persons directly affected by the severe damage and destruction occasioned by the collapse of the Teton Dam, the Board finds that good cause exists for dispensing with notice and public participation referred to in section 553(b) of Title 5 of the United States Code with respect to this action and that public procedure with regard to this action would be contrary to the public interest. Because of the need to provide assistance as soon as possible and because the Board's action relieves a restriction, the Board finds that there is good cause to make the action effective immediately.

By order of the Board of Governors, June 25, 1976.