

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

X-9597

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

May 27, 1936.

SUBJECT: Maximum Rates of Interest Payable on
Time Deposits under Regulation Q.

Dear Sir:

The Board has recently received an inquiry which indicated that there may be some misinterpretation of the provisions of the supplement to Regulation Q establishing a graduated scale of maximum rates of interest payable upon time deposits having different maturities or payable upon written notice of different periods. This inquiry indicated that such misinterpretation of the regulation may possibly have been caused in part by the forms of time certificates of deposit published at page 708 of the Federal Reserve Bulletin for November, 1933.

These forms complied with the definition of "time certificates of deposit" under the edition of Regulation Q in effect when they were published and also comply with the definition of such term in the current revision of Regulation Q. However, the rate of interest provided in such forms (3 per cent per annum) may not now be paid by a member bank.

The provision of these forms which may have caused misunderstanding is the following provision contained in forms 3 and 4:

"Interest payable for full months only at ___ per cent per annum if left _____ or ___ per cent if left more than _____."

(days or months) (days or months)

A time certificate of deposit payable upon 30 days' written notice which provides for interest at 1 per cent per annum if left 30 days but less than 90 days, or 2 per cent per annum if left 90 days but less than 6 months, or $2\frac{1}{2}$ per cent per annum if left 6 months or longer is not permitted by the provisions of the supplement to Regulation Q. Since such a time certificate of deposit would be payable upon 30 days' written notice, it would fall within the provisions of section (3) of the supplement, and the maximum rate of interest payable thereon would be 1 per cent per annum even though the deposit were left with the bank for a year or more.

In other words, the applicable maximum rate of interest payable on a time deposit may not be determined by the length of time the deposit is left with the bank but must be determined by the length of the period from the date of the deposit to its specified maturity or the period of notice of withdrawal or payment required by the certificate. Of course, a certificate payable upon 30 days' written notice could provide for interest at $1/2$ per cent per annum if left 2 months, $3/4$ per cent per annum if left 3 months, or 1 per cent per annum if left 4 months, but no matter how long the deposit is left with the bank the rate of interest payable on such a certificate may not exceed 1 per cent per annum.

In any case in which a member bank, under a misapprehension

as to the rate of interest payable on a time certificate of deposit of the kinds published at page 708 of the Federal Reserve Bulletin for November 1933 has, in good faith, issued any time certificate of deposit which provides that interest shall be paid thereon at a rate determined by the length of time the deposit is left with the bank when such interest would be at a rate in excess of the maximum rate determined on the basis of the length of the period of notice required for withdrawal or payment, the Board will not object to the payment of interest on such certificate in accordance with its terms, provided that the certificate and the rate of interest payable thereon comply in other respects with the provisions of Regulation Q and that such steps be taken by the bank through notice to the depositor or otherwise as may be necessary to bring such certificate into conformity with the provisions of the regulation as soon as possible.

Very truly yours,



Chester Morrill,
Secretary.

TO ALL FEDERAL RESERVE AGENTS.