

# The Monetary Control Act of 1980

Board of Governors  
of the Federal Reserve System  
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corporate, or business loan relationship; and in other ways expands the powers of thrift institutions.

## Discount Window

Any depository institution holding reservable transaction accounts or nonpersonal time deposits is entitled to the same borrowing privileges at the Federal Reserve discount window as member banks.

## Pricing of Services

The Monetary Control Act required the Board to establish a set of pricing principles and a schedule of fees for Federal Reserve Bank services.

The following services will be covered by the fee schedule:

1. Currency and coin services of a nongovernmental nature.
2. Check-clearing and collection.
3. Wire transfer.
4. Automated clearinghouse.
5. Settlement.
6. Securities safekeeping.
7. Federal Reserve float.
8. Any new service the Federal Reserve offers, including but not limited to, payment services to effectuate electronic funds transfer.

In determining the fee schedule, the Board must price explicitly all services covered by the fee schedule, and must price all services covered by the fee schedule to nonmember depository institutions at the same fee schedule applicable to member banks. Nonmembers may be required to hold clearing balances and may be subject to any other terms that the Board applies to member banks.

## Phase-Out of Interest Rate Ceilings

The Act provides for the orderly phase-out of limitations on the maximum rates of interest and dividends that may be paid on deposits. A Depository Institutions Deregulation Committee—with the Secretary of the Treasury, Chairman of the Federal Reserve Board, Chairman of the Board of Directors of the Federal Deposit Insurance Corporation, Chairman of the Federal Home Loan Bank Board, and Chairman of the National Credit Union Administration, as voting members, and Comptroller of the Currency as a non-voting member—is required to meet at least quarterly in order to achieve the phase-out.

## What Funds Qualify as Reserves?

Cash on hand in a depository institution may be used to satisfy the reserve requirement. When cash is not sufficient, the balance of required reserves must be maintained at a Federal Reserve Bank in an account that earns no interest. Institutions that are members of the Federal Reserve System must maintain their reserves directly with a Federal Reserve Bank. Non-member institutions may keep the balance of their reserves at a Federal Reserve Bank in one of two ways. They may hold their reserves either directly with a Federal Reserve Bank or indirectly in an account with another institution that passes the reserves through a Federal Reserve Bank. This second type of account is called a pass-through account.

The owner of a pass-through account is known as the respondent and the administrator is known as the correspondent. Under a pass-through arrangement, the respondent institution provides its correspondent with the funds needed to meet its reserves. The correspondent then passes the reserves on to a Federal Reserve Bank. A respondent may have only one pass-through account at a time. Each nonmember institution will have to decide whether to maintain its reserves directly or to use a pass-through arrangement.

## Expanded Powers of Depository Institutions Under the Monetary Control Act

The Monetary Control Act extended nationwide the authority for depository institutions to offer NOW (Negotiable Order of Withdrawal) accounts. A NOW account is an interest earning account on which checks may be drawn.

The Act also authorized banks to continue to provide automatic transfer services from savings to checking accounts; authorized savings and loan associations to establish remote service units to credit and debit savings accounts, or credit payments on loans, and provide related financial transactions; and authorized federally insured credit unions to offer share draft accounts.

The insurance of accounts of federally insured savings and loan associations and credit unions was increased from \$40,000 to \$100,000.

The Act also authorized various new investment authorities for federally chartered savings and loan associations. It permits them to offer credit card services and to exercise trust and fiduciary powers; expands authority to make real estate loans; authorizes Federal mutual savings banks to make commercial, corporate and business loans, subject to limitations, and to

The Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221), enacted on March 31, 1980, brought about a number of changes in the way financial institutions and the Federal Reserve System do business. First, it applied uniform reserve requirements, set by the Federal Reserve Board within limits specified by the Act, to all depository institutions with certain types of accounts and required reports from these depository institutions. The reserve requirement is the percentage of customer deposits that institutions must set aside in the form of reserves and affects the expansion of deposits that can be supported by each additional dollar of reserves. In general, reserve requirements are lower now for all depository institutions than they were before the Act for banks that were members of the Federal Reserve System.

The Act also extended access to the Federal Reserve discount window and to other Federal Reserve services in step with implementation of a fee schedule; provided for the gradual phase-out of interest rate ceilings on time and savings deposits; and broadened the powers of depository institutions, permitting them all to offer accounts similar to checking accounts.

Taken together, these provisions of the Act serve two vital purposes. The first is competitive equity among financial institutions which, given uniform reserve requirements, will be placed on a more equal footing and, given these new authorities, will be able to offer more equivalent services to their customers. The second purpose is improvement of the effectiveness of monetary policy by making the fulcrum on which that policy operates more stable.

## Who Is Covered?

Uniform reserve requirements are imposed on all depository institutions—including commercial banks, savings banks, savings and loan associations, credit unions, and industrial banks—that have transaction accounts or nonpersonal time deposits. Under the terms of the International Banking Act of 1978, the same reserve requirements are also extended to U.S. agencies and branches of foreign banks. The revised reserve requirement rules also affect Edge Act and Agreement corporations.

## Reporting of Deposits and Requirements for Maintaining Reserves

Depository institutions are required to report certain deposits directly to the Federal Reserve and to maintain reserves on some of these deposits.

Institutions with total deposits of \$15 million or more report and maintain reserves weekly, as do Edge Act and Agreement Corporations and U.S. agencies and branches of foreign banks.

Member banks with total deposits of less than \$15 million and nonmember institutions with deposits of \$2 million or more but less than \$15 million report and maintain reserves on a quarterly basis.

Nonmember institutions with total deposits of less than \$2 million have had reporting and reserve maintenance deferred temporarily.

## Reserve Requirements

**Transaction Accounts.** The reserve ratio is 3 percent of the first \$25 million of net transaction balances and 12 percent of the rest. Transaction accounts are those used to make payments to others. They include checking accounts, NOW accounts, share draft accounts, savings accounts that allow automatic transfers or payments by automated teller machines, and accounts that permit more than three telephone or pre-authorized payments each month.

**Nonpersonal Time Deposits.** Time deposits with original maturities of four years or more do not have to be backed by reserves. Those with shorter maturities may have to be backed by reserves, depending on the transferability of the account

and on the type of depositor. Nontransferable time deposits (including personal savings deposits) with maturities of less than four years do not have to be backed by reserves when they are owned by natural persons. (A natural person is an individual or a sole proprietorship.) Nonpersonal time deposits owned by anyone else and transferable time deposits, however, are subject to a 3 percent reserve requirement.

Time deposits are deposits or certificates with original maturities of at least 14 days, and savings accounts (including regular share accounts at credit unions and regular accounts at thrifts) that allow the institution to require at least 14 days notice before a withdrawal is made, or regular share accounts at credit unions. The reserve requirements for transaction accounts and those for time deposits are summarized in the tables below.

### Reserves Required for Transaction Accounts

An institution with this amount of net transaction balances...	... must keep this portion in cash or in a reserve account.
\$25 million or less	3%
Over \$25 million	3% of first \$25 million plus 12% of the rest

### Reserves Required for Time Deposits

Time deposits held by this type of depositor...	...which have this length of maturity...	...must be backed by reserves equal to this portion of the deposits that are transferable...	...and by this portion of the deposits that are not transferable (including personal savings deposits)...
Individuals (Natural persons, sole proprietors)	Less than 4 years	3%	0%
	4 years or more	0%	0%
Businesses (partnerships, corporations, nonprofit organizations, governmental units)	Less than 4 years	3%	3%
	4 years or more	0%	0%

**Eurocurrency Liabilities.** The Board has set a 3 percent reserve requirement on certain Eurocurrency liabilities (the same ratio as on nonpersonal time deposits). These are deposits arising from: net borrowings from related foreign offices; gross borrowings from unrelated foreign depository institutions; loans to U.S. residents made by overseas branches of domestic depository institutions; and sales of assets by depository institutions in the United States to their overseas offices.

## Phase-In of Reserve Requirements

**Nonmembers.** For most nonmember banks and thrift institutions, reserve requirements are phased in over an eight-year period, beginning with one eighth of the full reserve requirement in November, 1980 and increasing by one-eighth in September of each year after 1980.

### Phase-In Schedule for Nonmembers

During the period from...	...to...	...nonmembers must meet this much of their full reserve requirement.
November 13, 1980	September 2, 1981	12.5%
September 3, 1981	September 1, 1982	25.0%
September 2, 1982	August 31, 1983	37.5%
September 1, 1983	September 5, 1984	50.0%
September 6, 1984	September 4, 1985	62.5%
September 5, 1985	September 3, 1986	75.0%
September 4, 1986	September 2, 1987	87.5%

**Member Banks.** Members of the Federal Reserve System on September 1, 1980 or banks that were members between July 1, 1979 and September 1, 1980, will have new reserve requirements phased-in over approximately 3½ years. To calculate the reserves during this period, banks must first compute the old reserve requirements and then compute the new one. The difference between the old requirement and the new requirement will be eliminated gradually. On November 13, 1980, required reserves were adjusted by one-quarter of the difference between old and new reserve requirements. At certain subsequent intervals, required reserves will be adjusted by an additional fraction of this difference.