DISCOUNT WINDOW

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

In administering the borrowing privileges, the Federal Reserve is to take into consideration the special needs of savings and other depository institutions for access consistent with their long-term asset portfolios and their sensitivity to national money market trends. In general, access is available only after they have fully used reasonable alternative sources of funds. However, the discount window will be available on a temporary basis to cover immediate cash or reserve needs, when institutions are unable to gain timely access to their special industry lenders.

PRICING OF SERVICES

As required by the Monetary Control Act the Board has published for comment a set of pricing principles and a proposed schedule of fees for Federal Reserve Bank services. Under the proposal, the Board would begin actual pricing of some services in January 1981 and price all services by September 1981.

The following services are 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 System 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. However, nonmembers may be required to hold balances sufficient for clearing purposes 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. The 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 Board 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.

POWERS OF DEPOSITORY INSTITUTIONS

General

The Act authorizes banks to continue to provide automatic transfer services from savings to checking accounts; authorizes 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 authorizes federally insured credit unions to offer share draft accounts.

The Act also extends nationwide the authority for depository institutions to offer NOW accounts, effective December 31, 1980. NOW accounts may consist solely of funds in which the entire beneficial interest is held by one or more individuals or by an organization operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and not operated for profit.

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

Thrift Institutions

The Act also authorizes various new investment authorities for federally chartered savings and loan associations and 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 accept demand deposits in connection with a commercial, corporate, or business loan relationship; and in other ways expands the powers of thrift institutions.

The MONETARY CONTROL ACT of 1980

Federal Reserve Publication-December, 1980

The Monetary Control Act of 1980 (P.L. 96-221), enacted on March 31, 1980, is designed to improve the effectiveness of monetary policy by applying new reserve requirements set by the Federal Reserve Board to all depository institutions. Among its other key provisions, the Act 1) authorizes the Federal Reserve to collect reports from all depository institutions; 2) extends access to Federal Reserve discount and borrowing privileges and other services to nonmember depository institutions; 3) requires the Federal Reserve to set a schedule of fees for Federal Reserve services; and 4) provides for the gradual phase-out of deposit interest rate ceilings, coupled with broader powers for thrift institutions.

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 will also be extended to U.S. agencies and branches of foreign banks. The revised reserve requirement rules also affect Edge Act and Agreement corporations.

REPORTING REQUIREMENTS

The Act requires all depository institutions to file reports which the Board determines to be necessary or desirable for the control or monitoring of the monetary and credit aggregates. All reports are to be made directly to the Federal Reserve.

The Board has deferred until at least May 1981 all reserve requirements and reporting for nonmember institutions with total deposits of less than $2 million. The Board has also adopted quarterly rather than weekly reporting and reserve maintenance for institutions with total deposits of $2 million to $15 million. The quarterly reporting and maintenance procedures will begin in January 1981.

All other nonmember institutions began to report deposits as of the week October 30 through November 5, 1980, and to maintain reserves on November 13, 1980. Member banks began to phase down their reserve requirements to the new requirements of the Act at that time also.

RESERVE REQUIREMENTS

What Reserve Requirements are Established?

Transaction Accounts. The reserve requirement on the first $25 million of transaction accounts is 3 percent. A reserve requirement of 12 percent is established on that portion of total transaction accounts above $25 million. The Board is required to index the $25 million tranche annually, beginning in 1982, at 80 percent of increases or decreases in transaction accounts of all depository institutions for the previous year.

Transaction accounts are defined to include demand deposits, NOW accounts, ATS accounts, share draft accounts, and accounts subject to telephone or pre-authorized transfer when the depositor is authorized to make more than three transfers per month. Accounts that permit the depositor to make third party payments through automated teller machines or remote service units are also covered. Telephone and preauthorized transfers made to third parties or to another deposit account of the same depositor are counted toward the three permissible transfers per month; telephone or preauthorized withdrawals paid directly to the depositor are not. Further, a savings account is not regarded as a transaction account merely because it permits a depositor to make loan and associated payments to the institution itself.

Nonpersonal Time Deposits. All depository institutions are required to maintain reserves against nonpersonal time deposits (including savings deposits) with original maturities of less than 4 years at a ratio of 3 percent. Nontransferable personal time deposits will not be subject to reserve requirements. Time deposits with original maturities of four years or more are subject to a zero percent reserve ratio.

The Act defines a nonpersonal time deposit as any time deposit or account that is transferable, or any time deposit or account held by a party other than a natural person. Under the Board's regulation, all time deposits issued to natural persons prior to October 1, 1980 are to be regarded as personal time deposits even if they are transferable. A time deposit issued on or after that date, to be a personal time deposit, must be held by a natural person and bear a statement indicating that it is not transferable. The Board has also shortened the minimum maturity of all time deposits to 14 days from 30 days.

Supplemental Reserves. Under certain conditions, and after consultation with other depository institution regulators, the Board is authorized to impose a supplemental reserve requirement of not more than 4 percent on every depository institution. Interest will be paid on supplemental reserves.

Eurocurrency Reserve Requirements. The Board has set a 3 percent reserve requirement on certain Eurocurrency activity, the same ratio as on nonpersonal time deposits. These are: 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.

How Will Reserve Requirements be Phased In?

Larger nonmember institutions began posting reserves on November 13, 1980; smaller institutions will begin in early January; reserve and reporting requirements have been deferred for nonmember institutions with deposits of less than $2 million until May 1981. Until November, member banks continued to post reserves under existing requirements. Reserve requirement provisions of the Act are phased in as follows:

Nonmember Institutions. The Act provides for an eight-year phase-in period of reserve requirements for nonmember banks and thrift institutions. During the first ten-month period beginning in November 1980 the amount of required reserves is one-eighth of the full requirement and will increase by one-eighth in September of each of the following 7 years. NOW accounts, other than those previously authorized in New England, New York and New Jersey, are subject immediately to the full reserve requirement on transactions accounts.

Member Banks. Reserve requirements for member banks on transaction accounts and time and savings deposits were phased down by one-fourth of the difference between the amount under the old and new reserve requirement structures on November 13, 1980; they will be phased down by an additional one-eighth in September, 1981, and by an additional one-eighth at six-month intervals thereafter. To reduce reporting and processing burdens, reserve requirements on time deposits under the old structure are determined by applying the average reserve ratio on time deposits for the two week period ending August 6, 1980 to the total amount of time deposits. This fixed average reserve ratio on time deposits will be used throughout the phase-in period. NOW accounts, other than those previously authorized in New England, New York and New Jersey, are subject immediately to the full reserve requirement on transaction accounts.

De novo banks and banks that become member banks after March 31, 1980, will have a two-year phase-in period.

Former Member Banks. Under the Act any bank that withdrew from membership on or after July 1, 1979, must maintain reserves beginning on the date of enactment as if it had been a member bank on that date. Reserve requirements for these banks were deferred by the Board until August 28, 1980. The date of withdrawal from membership for a state member bank is determined by the date on which the Federal Reserve Bank received notice of the decision of the bank's board of directors (and shareholders when required by state law) to withdraw from membership. For national banks, the withdrawal date is the date on which a state charter was issued.

What are Eligible Reserves?

Reserve requirements may be met with funds deposited directly at the Federal Reserve, funds held at the Federal Reserve that are passed through a correspondent, and vault cash. A depository institution that is a member of the Federal Reserve System must hold its required reserves directly with the Federal Reserve. A nonmember institution may deposit its required reserve balance directly with the Federal Reserve or pass its required reserve balance through a correspondent. Such a correspondent may be a Federal Home Loan Bank; the National Credit Union Administration Central Liquidity Facility; a depository institution that holds a reserve balance with the Federal Reserve; or certain depository institutions that are not required to hold a reserve balance if authorized by the Board.

Vault cash means United States currency and coin (with the exception of silver and gold coins) owned by a depository institution that may, at any time, be used to satisfy depositors' claims. It includes United States currency and coin in transit to a Federal Reserve Bank or a correspondent depository institution for which the reporting depository institution has not yet received credit, and United States currency and coin in transit from a Federal Reserve Bank or a correspondent depository institution when the reporting depository institution's account at the Federal Reserve or correspondent bank has been charged for such shipment.