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.
7. Federal Reserve float.
8. Any new service the Federal Reserve System offers, including but not limited to, payment services to effectuate electronic funds transfers.

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.
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 month. Transaction accounts are defined to include demand deposits, NOW accounts, ATS accounts, share draft accounts, and accounts subject to telephone or preauthorized 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 allowed. Telephone- and preauthorized transfers made to third parties or to another deposit account of the same depositor are counted toward the three 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 association payments to the institution itself.

Nonpersonal Time Deposits. All depository institutions are required to maintain reserves against nonpersonal time 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. The Board has also shortened the minimum maturity of nonpersonal time deposits from 30 days to 14 days from October 1, 1980.

Reserve requirements for member banks and thrift institutions are phased in as follows:

How Will Reserve Requirements be Phased In?

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 subject to reserve requirements, are to be phased in beginning in November 1980.

Reserve requirements for member banks and thrift institutions are phased in as follows:

Member Banks. Reserve requirements for member banks on transaction accounts and time and savings deposits are phased in. 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 in member banks are to be phase-out immediately to the full reserve requirement on transactions accounts.

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 member bank or depository institution that is a member of the Federal Reserve System or pass its required reserve balance through a correspondent bank. Such a correspondent bank 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.

Former Member Banks. Under the Act any bank that withdrew from membership on or after July 1, 1943, must maintain reserves beginning on the date of enactment as if it had been a member bank on that date. Reserve requirements for the amounts 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 Federal Reserve and correspondent banks?

A depository institution that is a member of the Federal Reserve System must hold its required reserve balance directly with the Federal Reserve or pass its required reserve balance through a correspondent bank. Such a correspondent bank 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. The Board, in accordance with the Federal Reserve Act, may grant an extension of the time required by the Board to meet reserve requirements if the Board determines that extensions are in the public interest. An extension may be granted for a period not to exceed 1 year.

Former member banks. Under the Act any bank that withdrew from membership on or after July 1, 1943, must maintain reserves beginning on the date of enactment as if it had been a member bank on that date. Reserve requirements for the amounts 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 board’s 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.

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