FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 80-140
July 16, 1980

TITLE 12 - CHAPTER XII - INTEREST ON DEPOSITS

Proposed Interest Rate Ceiling on Interest-bearing Transaction Accounts;
Withdrawals at Savings and Loans from IRA and Keogh Accounts;
Change in Effective Date for Restrictions Regarding Premiums.

TO ALL MEMBER BANKS
AND OTHERS CONCERNED IN THE
ELEVENTH FEDERAL RESERVE DISTRICT:

The Depository Institutions Deregulation Committee has requested public comment on several proposed interest rate ceiling changes involving interest-bearing transaction accounts, such as NOW accounts, automatic transfer accounts, or telephone transfer accounts. Interested parties are invited to submit comments by August 4, 1980, to Norman R. V. Bernard, Executive Secretary, Depository Institutions Deregulation Committee, Federal Reserve Building, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551.

The committee also took the following actions:

1. Effective July 2, it made the rules governing withdrawals from Individual Retirement Accounts (IRA) and Keogh Accounts the same for accounts held at savings and loan associations and accounts held at banks.

2. Set December 31, 1980, as the effective date for any action it might take to restrict or eliminate premiums or gifts given to depositors. Premiums, gifts, and finders fees may continue to be given at least until that date.

3. Denied a request to make changes, at this time, in the six-month Money Market Certificate, which would have given it some characteristics of a money market mutual fund share.

4. Took no action on a petition to eliminate the differential ceiling rates on time and savings accounts applying to banks and thrift institutions in Rhode Island.

The press release and Federal Register documents are printed on the following pages. Questions concerning these matters should be directed to the Consumer Affairs Section of the Bank Supervision and Regulations Department, Ext. 6171.

Sincerely yours,

Robert H. Boykin
First Vice President

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[12 CFR Part 1204]

(Docket No. D-0011)

Notice of Proposed Rulemaking

Ceiling Rates on Interest-Bearing Transaction Accounts

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") proposes to adopt rules, effective December 31, 1980, concerning the maximum rate of interest payable on interest-bearing transaction accounts. In order to provide competitive equality among depository institutions consistent with the legislative intent of Title II of the Depository Institutions Deregulation and Monetary Control Act of 1980 (Public Law 96-221, 94 Stat. 142 (12 U.S.C. 3501 et seq.)), the Committee proposes to establish a uniform ceiling rate on all interest-bearing transaction accounts at commercial banks, mutual savings banks, and savings and loan associations. In addition, in order to facilitate the conduct of monetary policy, the Committee desires to encourage depositors to segregate transaction balances from balances that are inactive, and thus proposes to establish a ceiling rate on transaction accounts that is below the ceiling rate payable on nontransaction savings deposits at commercial banks and thrift institutions. The Committee is considering defining interest-bearing transaction accounts as those accounts that will be subject to transaction account reserve requirements under the Federal Reserve's Regulation D. In this regard, the Federal Reserve has proposed to define the following as transaction accounts: negotiable order of withdrawal accounts (NOWs); savings accounts subject to automatic transfers (ATS), telephone transfers (TTS), and pre-authorized nonnegotiable transfers (PNTS); or savings accounts which permit payments to third parties by means of an automated teller machine (ATM), remote service unit (RSU) or other electronic device.

DATE: Comments must be received by August 4, 1980.

ADDRESS: Normand R. V. Bernard, Executive Secretary, Depository Institutions Deregulation Committee, Federal Reserve Building, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551. All material submitted should include the Docket Number D-0011. Such material will be made available for inspection and copying upon request except as provided in section 1202.5 of the Committee's Rules Regarding Availability of Information (12 CFR 1202.5).

FOR FURTHER INFORMATION CONTACT: Nancy Feldman, Associate General Counsel, Federal Home Loan Bank Board (202/377-6440), Debra Chong, Attorney, Office of the Comptroller of the Currency (202/447-1632), F. Douglas Birdzell, Senior Attorney, Federal Deposit Insurance Corporation (202/389-4324), Anthony F. Cole, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3612), or Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: Title III of the Depository Institutions Deregulation and Monetary Control Act of 1980 (the "Act") authorizes all depository institutions nationwide except credit unions to offer NOW accounts to individuals and certain nonprofit organizations effective December 31, 1980. The Act also permanently authorizes, effective April 1, 1980, federally insured commercial banks and mutual savings banks to offer ATS accounts to individuals and Federal savings and loan associations to establish RSUs for the purpose of crediting and debiting savings. The ceiling rate of interest payable on NOW accounts by those institutions already authorized to offer such accounts has been 5 per cent since January 1, 1974. A uniform ceiling applicable to these institutions was established by the Federal financial regulatory agencies in view of legislative history which indicated that all depository institutions should be able to offer NOW accounts on the same terms in the interest of competitive equality. As provided in Title XVI of the Financial Institutions Regulatory and Interest Rate Control Act of 1978 (Public Law 95-630), the ceiling rate of interest payable on ATS accounts for all institutions authorized to offer such accounts must be no greater than the ceiling rate applicable to savings deposits at commercial banks. The current ceiling for ATS accounts is 5-1/4 per cent. Commercial banks may currently offer TTS, PNTS, and accounts from which payments may be made by ATMs/RSUs at a ceiling rate of 5-1/4 per cent. Thrift institutions currently may offer such accounts at a ceiling rate of 5-1/2 per cent.

The Committee believes the provisions of the Act and of the legislative history indicate the Congressional intent for rate parity over time on all interest-bearing transaction accounts at all depository institutions. Moreover, because NOW, ATS, TTS, PNTS, and ATM/RSU accounts all may be used as transaction accounts, the Committee proposes to establish a uniform ceiling applicable to all such accounts. The Committee proposes to treat as transaction accounts for the purposes of ceiling rate limitations those accounts that the Federal Reserve determines are subject to Federal reserve requirements as transaction accounts under Regulation D. In this regard, it should be noted that the Federal Reserve has invited comments by July 15 (45 Fed. Reg. 38388) on a proposal to amend Regulation D (Reserve Requirements of Depository Institutions). The proposal defines transaction accounts to include, among others, TTS, PNTS, and ATM/RSU accounts, but invites comment on the feasibility and desirability of exempting from transaction reserve requirements such accounts that are limited to a minimal number of transfers per month--perhaps one or two.

The Committee believes that establishing a uniform ceiling on transaction accounts is a move toward competitive equality among depository institutions in furtherance of the Congressional intent. In addition, in order to encourage depositors to segregate transaction balances from balances that are inactive and to aid the conduct of monetary policy by facilitating interpretation of movements in the monetary aggregates, the Committee proposes to establish a uniform transaction account ceiling rate that is below the ceiling rates payable on nontransaction savings deposits at commercial banks and thrift institutions. Under the proposals, the ceiling rate on all interest-bearing transaction accounts would be below the ceiling rate of interest payable on nontransaction savings accounts at commercial banks.

The Committee requests comment on four alternative options for the level of the ceiling rate of interest payable on transaction accounts. The first three options would establish a uniform ceiling rate on all transaction accounts at 5, 5-1/4, or 5-1/2 per cent. The fourth alternative option would establish a ceiling rate higher than 5-1/2 per cent on transaction accounts. Under Option 1, there would be no increase in current ceiling rates applicable to savings or fixed-ceiling time deposits. However, the other three options would require an increase in the ceiling rates currently payable on savings accounts since the Committee proposes to establish a ceiling rate on transaction accounts that is below the ceiling rate payable on nontransaction savings accounts at commercial banks. In addition, adoption of one of these three options would require similar increases in the ceiling rates of interest payable on fixed-ceiling time deposits in order to maintain the relationships embodied in the current ceiling rate structure.

Comments specifically are requested on: (1) the appropriateness of a spread between the ceiling rates on transaction accounts and nontransaction savings accounts; (2) the appropriateness of increasing the entire fixed-ceiling time deposit rate structure if the savings ceiling rate is raised; and (3) the cost effects on depository institutions of each of these options.

OPTION 1 -- ESTABLISH A 5 PER CENT CEILING FOR ALL INTEREST-BEARING TRANSACTION ACCOUNTS

An uniform ceiling at 5 per cent would encourage the separation of transaction accounts from nontransaction savings accounts and would facilitate the conduct of monetary policy. This option also would minimize the short-term reduction in earnings of depository institutions associated with the nationwide introduction of NOW accounts on December 31, 1980, and would not require a change in the existing ceiling rate on savings accounts. This option, however, would require a 1/4 point reduction of the ceiling rate of interest payable on ATS, TTS, PNTS, and ATM third party payment accounts at commercial banks, and a 1/2 point reduction of the ceiling rate payable on TTS, PNTS and RSU third party payment accounts at thrift institutions.

OPTION 2 -- ESTABLISH A 5-1/4 PER CENT CEILING FOR ALL INTEREST-BEARING TRANSACTION ACCOUNTS

Under this option, to ensure the separation of transaction accounts from nontransaction savings accounts, the ceiling rate of interest on nontransaction savings accounts would be raised to 5-1/2 per cent at commercial banks and 5-3/4 per cent at thrift institutions. However, no change in the ceiling on ATS accounts (presently 5-1/4) would be required. The ceiling rate on NOW accounts (presently 5 per cent) would be increased by 1/4 point and the ceiling rate on TTS, PNTS, and RSU third party payment accounts at thrift institutions would be lowered by 1/4 point. In order to maintain the current relationships among the rate ceilings on savings deposits and the various maturity categories of fixed-ceiling time deposits, as well as the existing differentials between ceiling rates at commercial banks and those at thrifts, the ceiling rates on fixed-ceiling time deposits would be raised by 1/4 point.

OPTION 3 -- ESTABLISH A 5-1/2 PER CENT CEILING FOR ALL INTEREST-BEARING TRANSACTION ACCOUNTS

Under this option, to ensure the separation of transaction accounts from nontransaction savings accounts, the ceiling rate of interest on nontransaction savings accounts would be raised to 5-3/4 per cent at commercial banks and 6 per cent at thrift institutions. The ceiling rates on ATS accounts and NOW accounts would be raised 1/4 per cent and 1/2 per cent, respectively. The ceiling rate on TTS, PNTS, and ATM third party payment accounts at commercial banks would be increased by 1/4 point, while no change in the ceiling rate on TTS, PNTS, and RSU third party payment accounts at thrifts would be required. The ceiling rates on all fixed-ceiling time deposits also would be increased by 1/2 point.

The following table summarizes the current interest rate ceilings on savings and fixed-ceiling time deposits and the ceilings under the first three options.

Account type	Commercial banks			Savings and loan associations and mutual savings banks		
	Current and Option 1	Option 2	Option 3	Current and Option 1	Option 2	Option 3
Savings	5-1/4	5-1/2	5-3/4	5-1/2	5-3/4	6
Fixed-ceiling time accounts by maturity:						
30 to 89 days	5-1/4	5-1/2	5-3/4	Generally not available		
90 days to 1 year	5-3/4	6	6-1/4	6	6-1/4	6-1/2
1 to 2-1/2 years	6	6-1/4	6-1/2	6-1/2	6-3/4	7
2-1/2 to 4 years	6-1/2	6-3/4	7	6-3/4	7	7-1/4
4 to 6 years	7-1/4	7-1/2	7-3/4	7-1/2	7-3/4	8
6 to 8 years	7-1/2	7-3/4	8	7-3/4	8	8-1/4
8 years and over	7-3/4	8	8-1/4	8	8-1/4	8-1/2

OPTION 4 -- ESTABLISH A CEILING HIGHER THAN 5-1/2 PER CENT FOR ALL INTEREST-BEARING TRANSACTION ACCOUNTS

Establishing a ceiling higher than 5-1/2 per cent would avoid or minimize the reduction in ceilings on certain interest-bearing transaction accounts required under either Options 1 or 2. Such action would provide depository institutions with greater scope to price transaction accounts in line with their individual market position, customer needs and convenience, and portfolio positions. If the existing structure of fixed-ceiling deposit rates is to be maintained, however, this option would require significant upward adjustment in all other ceiling rates.

By order of the Committee, June 25, 1980.

Normand R. V. Bernard
Executive Secretary of the Committee

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0010]

Early Withdrawal from IRA and Keogh Accounts; Interest on Deposits

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has adopted a rule providing that a penalty need not be applied to a withdrawal from an IRA or Keogh account time deposit prior to the maturity of the account, if the owner is disabled or age 59½ or over. The rule applies to all commercial banks, mutual savings banks, and savings and loan institutions subject to the authorities conferred by section 19(j) of the Federal Reserve Act, section 18(g) of the Federal Deposit Insurance Act and section 5B(a) of the Federal Home Loan Bank Act. The rule is consistent with existing rules of the Federal Reserve System ("Federal Reserve") and the Federal Deposit Insurance Corporation ("FDIC"). The rules of the Federal Home Loan Bank Board ("FHLBB") permit exemption from an early withdrawal penalty for IRA and Keogh accounts only if withdrawal is made to effect a distribution of the account. The rule adopted by the Committee conforms the rules of the FHLBB to the existing rules of the Federal Reserve and the FDIC.

EFFECTIVE DATE: July 2, 1980.

FOR FURTHER INFORMATION CONTACT: John R. Hall, Associate General Counsel, Federal Home Loan Bank Board (202/377-6450), Debra Chong, Attorney, Office of the Comptroller of the Currency (202/447-1632), F. Douglas Birdzell, Senior Attorney, Federal Deposit Insurance Corporation (202/389-4324), Anthony F. Cole, Senior Attorney, Federal Reserve Board (202/452-3612), or Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: Regulations applicable to Federally regulated depository institutions generally require that a penalty, in the form of decreased or forfeited earnings, be applied when any withdrawal of funds from a time deposit occurs prior to maturity of the account. Under the rules and regulations of the Federal Reserve and the FDIC, (12 CFR 217.4(d) and 329.4(d)), a member bank or an FDIC-insured bank may pay a time deposit before maturity without penalty, if the deposit represents funds contributed to an Individual Retirement Account or a Keogh (H.R. 10) plan and withdrawal occurs after the individual for whose benefit the account is maintained attains age 59½ or is disabled. Under regulations of the FHLBB (12 CFR 526.7(c)), a penalty-free withdrawal of IRA or Keogh time deposit funds is permitted when the depositor attains age 59½ of is disabled only if such withdrawal is made to effect a taxable distribution of funds in the account.

The Committee believes it is appropriate that, with regard to early withdrawal penalties, retirement account owners receive equivalent treatment in all Federally-regulated depository institutions. Further, the Committee believes that any withdrawal from an IRA or Keogh account after the owner is disabled or age 59½ should be eligible for exemption from penalty for early withdrawal, regardless of whether the withdrawal is made to effect a taxable distribution. Therefore, the Committee has determined to adopt a rule consistent with the rule previously adopted by the Federal Reserve and the FDIC. The Committee believes that such a liberal rule encourages retirement savings by providing maximum flexibility for retirement savers.

Because the Committee believes that equal treatment of retirement savers in all types of depository institutions should be achieved as soon as possible, the Committee finds that notice and public procedure with respect to the rule is contrary to the public interest and unnecessary under the provisions of 5 U.S.C. 553(b); and since publication of the amendment for the time specified in 5 U.S.C. 553(d) prior to its effective date would delay implementation of the rule, and, for the reasons described above, delay is unnecessary and contrary to the public interest, the Committee has determined that the rule shall become effective as herein set forth.

Pursuant to its authority under Title II of Public Law 96-221, 94 Stat. 142 (12 U.S.C. 3501 *et seq.*), to prescribe rules governing the payment of interest and dividens on deposits of federally insured commercial banks, savings and loan associations and mutual savings banks, effective June 2, 1980, the Committee amends Part 1204 (Interest on Deposits) by adding section 107 as follows:

PART 1204—INTEREST ON DEPOSITS

§ 1204.107 Early Withdrawal of IRA and Keogh Accounts.

A depository institution subject to the authorities conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. (371b), section 18(g) of the Federal Deposit Insurance Act (12 ULSLC.) 1828(g)), or section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) may pay a time deposit or certificate account before maturity without a reduction or forfeiture of earnings if the time deposit or certificate account represents an Individual Retirement Account or a Keogh (H.R. 10) plan established under 26 U.S.C. 408 or 401, and the individual for whose benefit the account is maintained has attained age 59½ or is disabled (as defined in 26 U.S.C. 72(m)(7)).

By order of the Committee June 25, 1980.

Normand R. V. Bernard,

Executive Secretary of the Committee.

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DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE PRESS RELEASE

COMPTROLLER OF THE CURRENCY FEDERAL DEPOSIT INSURANCE CORPORATION FEDERAL HOME LOAN BANK BOARD
FEDERAL RESERVE BOARD NATIONAL CREDIT UNION ADMINISTRATION TREASURY DEPARTMENT

For immediate release June 30, 1980

The Depository Institutions Deregulation Committee today requested public comment on a series of possible realignments of interest rate ceilings on interest-bearing transaction accounts--such as NOW (negotiable orders of withdrawal) and ATS (automatic transfer service) accounts at banks and thrift institutions.

At the same time, the Committee announced other actions affecting withdrawals at savings and loan associations from Individual Retirement Accounts (IRAs) and Keogh accounts (in which individuals save for retirement); the effective date for any restrictive actions the Committee might take on the use of premiums, gifts and finders fees in connection with deposit accounts; a congressional suggestion for revision of the six-month Money Market Certificate, and a petition for the elimination in Rhode Island of the differential between the ceiling rates that banks and thrift institutions may pay on certain time and savings accounts.

The Committee made its proposals respecting interest-bearing transaction accounts with the objective of providing competitive equality among depository institutions through parity among the ceiling rates applying to all such accounts at all types of depository institutions.

The Committee asked for comment on these proposals by August 4, 1980, and said that it would consider its proposals, in the light of comment received, at a meeting on September 9. Any action taken would be effective December 31, 1980.

The Committee proposed to consider as interest-bearing transaction accounts those accounts that will be subject to transaction account reserve requirements under the Federal Reserve's Regulation D. The Federal Reserve has proposed to define the following as transaction accounts: negotiable orders of withdrawal (NOW accounts), savings accounts subject to automatic transfer arrangements (ATS accounts), telephone transfers (TTS) and pre-authorized nonnegotiable transfers (PNTS), or accounts which permit payments to third parties by means of an automated teller machine (ATM), remote service unit (RSU) or other electronic device.

The Committee's proposals provide, inthe interests of competitive equality among depository institutions, a uniform ceiling rate on all interest-bearing transaction accounts at commercial banks, mutual savings banks and savings and loan associations. Further, in the interests of facilitating the conduct of monetary policy the Committee desires to encourage depositors to differentiate between active and inactive interest-bearing deposits by establishing a ceiling rate that is higher for nontransaction savings accounts than for savings accounts that may be used as transaction accounts.

The Depository Institutions Deregulation and Monetary Control Act of 1980 (which established the Deregulation Committee) authorizes nationwide issuance of NOW accounts effective December 31, 1980 by all depositories except credit unions, and, effective April 1, 1980, the issuance of ATS accounts for individuals by commercial banks and mutual savings banks and the establishment of RSU accounts by Federally insured savings and loans associations for the crediting and debiting of savings.

The following table shows the current interest rate ceilings on savings accounts and on those accounts the Committee proposes to regard as interest-bearing transaction accounts, and sets forth three alternative optional realignments that might be made in the interests of parity among the various types of accounts and competitive equality among depository institutions. These options are described in detail in the attached Federal Register notice of these proposals.

Structure of Interest Rate Ceilings on Interest-Bearing Transaction Accounts and Passbook Savings Accounts at Federally Insured Depository Institutions and Three Optional Realignments

Types of Accounts	Current ceiling	Option 1	Option 2	Option 3
Commercial banks				
Savings	5-1/4	5-1/4	5-1/2	5-3/4
NOW	5 *	5	5-1/4	5-1/2
ATS	5-1/4	5	5-1/4	5-1/2
TTS	5-1/4	5	5-1/4	5-1/2
PNTS	5-1/4	5	5-1/4	5-1/2
Savings and loan associations and mutual savings banks				
Savings	5-1/2	5-1/2	5-3/4	6
NOW	5 *	5	5-1/4	5-1/2
ATS	5-1/4	5	5-1/4	5-1/2
TTS	5-1/2	5	5-1/4	5-1/2
PNTS	5-1/2	5	5-1/4	5-1/2
RSU	5-1/2	5	5-1/4	5-1/2

*In New England, New York, and New Jersey.

The Committee also requested comment on a fourth option that would establish a uniform ceiling rate on interest-bearing transaction accounts above 5-1/2 percent.

The Committee also:

1. Decided effective July 2 to make the rules governing withdrawals from Individual Retirement Accounts (IRAs) and Keogh accounts the same in the case of accounts held at savings and loan associations as for such accounts held at banks. This eliminates a difference in the rules that made funds withdrawn from such retirement accounts at savings and loan associations before

maturity after the account holder reaches age 59-1/2 or is disabled subject to penalty for early withdrawal if the funds were withdrawn for any purpose other than distribution (retention for the account owner's use).

2. Decided that any action it might take to restrict or eliminate premiums or gifts given by financial institutions in connection with deposits would not become effective before December 31, 1980.

The Committee proposed on May 6 to abolish premiums or gifts in connection with the opening of new deposit accounts or additions to existing accounts. The Committee has asked for comment through July 16.

The Committee also proposed in May that finders fees be limited to cash payments and be regarded as interest paid to the depositor. Any action taken by the Committee to put this proposal into effect would also not be effective before December 31, 1980.

The Committee's decision means that premiums, gifts and finders fees may continue to be given under present rules at least through December 30, 1980.

The Committee plans, tentatively, to consider its May proposals, in the light of comment received, at a meeting scheduled for September 9.

3. Decided to notify Congressmen Fernand J. St Germain and Jerry M. Patterson that the Committee does not believe it advisable at this time to adopt proposals made by them for changes in the six-month Money Market Certificate that would give the MMC some characteristics of a money market mutual fund share.

4. Decided to take no action at this time on a petition from banks in Rhode Island for the elimination in that State of the differential ceiling rates on time and savings accounts applying to banks and thrift institutions.

Attachements

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