

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-154  
July 29, 1981

INTEREST RATE CEILINGS ON DEPOSITS

Phase Out Schedule

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

The Depository Institutions Deregulation Committee (DIDC) has adopted a schedule to phase out federally imposed interest rate ceilings on deposits under \$100,000 at all federally insured commercial banks, mutual savings banks, and savings and loan associations. The attached phase-out schedule is effective beginning August 1, 1981.

To more fully explain the Committee's actions, enclosed are copies of the Committee's press releases dated June 26, July 8, and July 10, and copies of four documents submitted for publication in the Federal Register.

In the press release dated July 10 and in the Federal Register documents dated July 9, the Committee requested public comment on proposals designed to aid in the phase out of interest rate ceilings on time and savings deposits. Interested persons are invited to submit comments on these proposals to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1054, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. Comments must be received by August 10, 1981. When submitting comments, please refer to Docket No. D-0020, Ceiling Rates for 26-week Money Market Certificates, and Docket No. D-0021, Adjustment of Interest Rates on Savings Accounts.

Questions concerning this circular and enclosures should be directed to the Legal Department of this Bank, Extension 6171.

Sincerely yours,



William H. Wallace  
First Vice President

Enclosure

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Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

FEDERAL RESERVE BANK OF DALLAS  
DALLAS, TEXAS 75222

ERRATA TO CIRCULAR NO. 81-154

1. The Page 2 following Docket No. D-0021 is Page 2 of the DIDC Press Release dated June 26.
2. Pages 3-4 following the DIDC Press Release dated June 26 are Pages 3-4 of DIDC Docket No. D-0020.
3. The Page 2 following the DIDC Press Release dated June 26 is page 2 of the DIDC Docket No. D-0021.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[12 C.F.R. Part 1204]

(Docket No. D-0021)

Notice of Proposed Rulemaking

Adjustment of Interest Rates on Savings Accounts

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed Rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") is required to vote, by September 30, 1981, on increasing the interest rate payable on passbook savings accounts. The Committee is seeking guidance on whether to increase the passbook rate and, if so, to what level.

DATES: Comments should be received on or before August 10, 1981.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning this matter to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1054, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number D-0021.

FOR FURTHER INFORMATION CONTACT: Allan Schott, Attorney-Advisor, Department of the Treasury (202) 566-6798; Daniel L. Rhoads, Attorney, Board of Governors of the Federal Reserve System (202) 452-3711; Rebecca H. Laird, Senior Associate Counsel, Federal Home Loan Bank Board (202) 377-6446; David Ansell, Attorney, Office of the Comptroller of Currency (202) 447-1880; Randall J. Miller, Jr., Acting Director, Office of Policy Analysis, National Credit Union Administration (202) 357-1090; and F. Douglas Birdzell, Counsel, or Kathy A. Johnson, Attorney, Federal Deposit Insurance Corporation (202) 389-4261 or 389-4384.

SUPPLEMENTARY INFORMATION: Section 205(a) of the Depository Institutions Deregulation Act of 1980, (12 U.S.C. § 3504(a)) ("Act") requires the Committee to vote, by not later than September 30, 1981, on whether to raise the rates on passbook savings and similar accounts by at least one-quarter of one percentage point. At its meeting on June 25, 1981, the Committee decided to seek public comment to guide it in its deliberations. A proposal put forth at the June 25 meeting was to raise the rates on passbook savings deposits by five percentage points, thus increasing the maximum permissible rates payable by commercial banks and thrift institutions to 10-1/4 percent and 10-1/2 percent, respectively. It should be emphasized that this proposal represents one of many possible options and should not be regarded as representing a consensus or commitment of the Committee.

Finally, the Committee decided to submit for public comment several proposals relating to new short-term instruments and to ask for public comment on ways to increase ceilings on passbook accounts.

In conjunction with Secretary Regan assuming the Chairmanship of the DIDC, the principal offices of the Committee have been moved from the Federal Reserve Building to the Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

Attachment

## Proposal to Phase Out Interest Rate Ceilings

### Step 1 (August 1, 1981)

1. Remove all rate "ceilings" on all deposits with maturities of 4 years and over.
2. Index rate ceilings for 2 1/2 year to 4 year deposits to the 2 1/2 year Treasury security and retain a twenty-five basis point differential. (Treasury rate for thrifts, Treasury rate - 25 basis points for commercial banks)

### Step 2 (August 1, 1982)

1. Eliminate ceilings on 3 to 4 year deposits.
2. Index rate ceilings for 2 to 3 year deposits to the 2 year Treasury security and retain differential as above.

### Step 3 (August 1, 1983)

1. Eliminate ceilings on 2 to 3 year deposits.
2. Index rate ceilings for 1 to 2 year deposits to the 1 year Treasury security.

### Step 4 (August 1, 1984)

1. Eliminate ceilings on 1 to 2 year deposits.
2. Index rate ceilings for all time deposits under 1 year to comparable Treasury security yields as above.

### Step 5 (August 1, 1985)

1. Eliminate ceilings on all time deposits.

**TITLE 12--BANKS AND BANKING  
CHAPTER XII--DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE  
(Docket No. D-0019)  
PART 1204--INTEREST ON DEPOSITS**

**Phaseout of Ceiling Rates on All Time Deposits**

**AGENCY:** Depository Institutions Deregulation Committee.

**ACTION:** Final Rules.

**SUMMARY:** The Depository Institutions Deregulation Committee ("Committee") has established a schedule for the orderly phaseout and ultimate elimination of interest rate ceilings on all time deposits at commercial banks and thrift institutions. Under the schedule, which is effective August 1, 1981, interest rate ceilings will be completely eliminated according to a step-by-step procedure based upon the original maturity of new time deposits. Ceilings will be eliminated first for deposits having an original maturity of 4 years or more. The minimum maturity for deposits without any rate ceiling will be reduced by one year during each of the next four years until, on August 1, 1985, all interest rate ceilings on all categories of time deposits will be eliminated. As part of its phaseout plan, the Committee also removed the existing "cap" on the ceiling rate for 2-1/2 year or more small saver certificates ("SSCs"), but retained the current ceilings, which are determined by the average 2-1/2 year yield on U. S. Treasury securities, and retained the current minimum ceilings. During the phaseout period, the ceiling rate for new time deposits with certain maturities will be indexed to the yields for U.S. Treasury securities with comparable maturities. For those deposits with indexed ceiling rates, a 1/4 percentage point differential in favor of thrifts will be maintained for the first two years of the phaseout period, but will be removed entirely for all new deposits issued on or after August 1, 1983, which are covered by the schedule. The new rules do not change the terms or rates of any existing time deposits or passbook-type savings accounts.

**EFFECTIVE DATE:** August 1, 1981.

**FOR FURTHER INFORMATION CONTACT:** F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4261), Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281), Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798), Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446), or David Ansell, Attorney, Office of the Comptroller of the Currency (202/447-1880).

**SUPPLEMENTARY INFORMATION:** On March 31, 1981, the Committee requested public comment on two proposals to help accomplish the Committee's statutory objective of an orderly phaseout and ultimate elimination

of interest rate ceilings on all time and savings deposits by April 1, 1986 (See 46 Federal Register 20155). The first proposal was intended to further deregulation in the short run by removing the "cap" applicable to interest rate ceilings on 2-1/2 year or more small saver certificates (SSCs). Under the proposal, an interest rate ceiling would continue to apply, but the current cap of 11-3/4 percent for commercial banks and 12 percent for mutual savings banks and savings and loan associations would be eliminated. As proposed, the ceiling would continue to be determined by the average 2-1/2 year yield on U.S. Treasury securities. The second proposal was intended to further deregulation in the long term by completely eliminating the rate ceilings on deposits beginning with those of longer maturities, or by indexing the interest rate ceilings on such deposits to a market rate. The Committee also requested comments on any other plans for deregulating interest rate limitations.

In response to its request, the Committee received more than 700 written comments from depository institutions, trade associations, Federal instrumentalities and individuals. In summary, the comments varied greatly and produced no consensus on how a deregulation plan should be structured.

With respect to the proposal to eliminate the cap on SSCs, slightly more than one-half of the relevant comments opposed the proposal, with thrifts and their trade groups generally opposed, and banks and their trade groups generally in favor of the proposal. Many of the respondents who favored eliminating the caps were of the view that it would have a positive impact on all depository institutions by providing a competitive longer-term instrument. These respondents felt that an uncapped SSC could attract new deposits, which could be reinvested profitably by depository institutions.

Those opposing the proposal argued that the circumstances that originally caused the regulatory agencies to establish the caps had not changed. Some respondents maintained that removing the caps would result in a sharp rise in the ceiling rate, would not increase deposits appreciably, would increase the cost of funds to institutions and would exacerbate earnings pressures at thrift institutions.

With regard to the proposal to phaseout interest rate limitations by maturity, approximately 30 percent of those comments favored the proposed schedule, and about 30 percent opposed any decontrol. The remaining respondents found the concept of a schedule acceptable, but were of the view that the proposed schedule was either too fast (15 percent) or too slow (25 percent). Respondents favoring no decontrol or a slower pace for decontrol, primarily thrift institutions, argued that more time was needed to adjust asset portfolios. Moreover, they maintained that deregulation would mean a higher cost of funds and lower earnings at a time when thrifts were unable to absorb them. Suggestions on how to

"slow" the process of deregulation included delaying the start of the phaseout period for two or three years and beginning the phaseout with longer maturity deposits, such as eight years. Those favoring the proposed schedule or suggesting a faster pace for deregulation, generally commercial banks, indicated that, while it would be desirable to allow all institutions time to adjust their asset portfolios, market events do not permit such a delay in the process of deregulation. In addition, some respondents suggested that the schedule should begin with shorter maturity deposits, since they felt that deposits with a 5-year maturity could not be attracted without a substantial premium, and complete deregulation should be achieved before 1986.

With respect to the issue of whether ceiling rates should be eliminated completely or indexed to some market rate during the phaseout, the Committee received more than 240 comments, a majority of which favored indexing. Some of the respondents favoring the indexing approach maintained that, in the absence of regulated ceilings, there would be greater potential for irrational, as well as predatory, pricing. Those respondents supporting the complete elimination of ceilings argued that indexing could be confusing to depositors, and that a rate ceiling becomes, in effect, the rate that is offered by depository institutions. In addition, it was noted that, at the end of the period when ceiling rates were indexed, the Committee would have to eliminate the ceilings in any case, and it would be better to start now, gradually, rather than eliminating them all at once.

The Committee also received a number of suggestions on alternative methods of deregulation. These proposals included the establishment of a short-term deposit instrument that could improve the competitive position of depository institutions in competing with instruments offered by non-depository institutions.

After considering all of the comments, the Committee established a four-year schedule that will result in the complete elimination of interest rate ceilings on all time deposits. The phaseout plan adopted by the Committee is as follows:

Step 1 (August 1, 1981)

1. Eliminate all rate ceilings on all new time deposits with an original maturity of 4 years or more.
2. Index rate ceilings for new time deposits with an original maturity of 2-1/2 years to 4 years to the average 2-1/2 year yield on U. S. Treasury securities and retain the 25 basis point differential between commercial banks and thrift institutions. The interest rate ceiling for thrifts will be the average Treasury yield, and the rate ceiling for commercial banks will be the average Treasury yield less 25 basis points.



**Step 2 (August 1, 1982)**

1. Eliminate rate ceilings on all new time deposits with an original maturity of 3 years or more.
2. Index rate ceilings for new 2 to 3 year time deposits to the average 2 year yield on U. S. Treasury securities and retain the differential, as described in step 1 above.

**Step 3 (August 1, 1983)**

1. Eliminate rate ceilings on all new time deposits with an original maturity of 2 years or more.
2. Index rate ceilings for new 1 to 2 year time deposits to the rate for 1 year Treasury securities without a differential between commercial banks and thrift institutions.

**Step 4 (August 1, 1984)**

1. Eliminate rate ceilings on all new time deposits with an original maturity of 1 year or more.
2. Index rate ceilings for new time deposits with a maturity of less than 1 year to the rate for 13-week Treasury securities without a differential between commercial banks and thrift institutions.

**Step 5 (August 1, 1985)**

1. Eliminate rate ceilings on all time deposits.

The new rules apply only to new time deposits issued on or after each of the relevant dates; the rates payable on existing time and savings deposits are unaffected by the new rules. Moreover, ceiling rates for new time deposits with maturities other than those specified in the phaseout schedule on each of the relevant implementation dates will remain unchanged unless specifically acted upon in the future by the Committee. For example, on August 1, 1981,

the maximum interest rate payable on time deposits, (except for MMCs, governmental units and IRA/Keogh Plans) will be as follows:

<u>Original Maturity</u>	<u>Commercial Banks</u>	<u>Thrift Institutions</u>
4 years or more	No Limit	No Limit
2-1/2 - 4 Years	2-1/2 Year Treasury Yield* less 25 Basis Points	2-1/2 Year Treasury Yield*
1 - 2-1/2 Years	6 Percent	6-1/2 Percent
90 days - 1 Year	5-3/4 Percent	6 Percent
14 - 89 days	5-1/4 Percent	No Separate Account Category

\*On June 22, 1981, the Treasury yield for 2-1/2 year securities was 14.35 percent.

In taking this action, the Committee concluded that the phase-out plan is necessary to provide meaningful deregulation and to provide depository institutions and their customers with a specific schedule so that they may better plan their asset and liability strategies in anticipation of an environment without interest rate ceilings. Nonetheless, the Committee emphasized that it would monitor the phaseout schedule at least annually, in light of economic conditions and with due regard for the safety and soundness of depository institutions, and that it would alter the phaseout schedule, by hastening the phaseout, by deferring implementation of certain steps, or by taking other action, whenever conditions indicate that such action is warranted.

As is currently provided, interest may be compounded and there is no minimum denomination for any time deposit (except for the \$10,000 money market certificates ("MMCs"), which are not affected immediately by the new rules). Until August 1, 1984, the effective date for ceiling rates that are indexed to an average Treasury yield will be determined as is currently the procedure for SSCs (See 12 C.F.R. § 1204.106). Under these procedures, the average Treasury yield is determined bi-weekly, and the effective date of the ceiling rate is the first day after the new yield is announced. For example, the rate for SSCs is established bi-weekly, normally on Monday, with the ceiling rate effective on Tuesday. On August 1, 1984, the ceiling rate will be established weekly, as is currently the procedure for MMCs (See 12 C.F.R. § 1204.104).

The Committee also discussed the adequacy of the existing early withdrawal penalty with respect to the phaseout plan and determined to take no action to change that penalty. Accordingly, the existing early withdrawal penalty, as well as all other rules regarding the payment of interest on deposits, will continue to apply to all time deposits. The Committee emphasized that if the current

penalty is not adequate to deter early withdrawals from new time deposits with original maturities of 4 years or more, it would consider changing the penalty.

Finally, with respect to SSCs, the existing minimum ceiling of 9.25 percent and 9.50 percent for banks and thrifts, respectively, will remain unchanged; thus, regardless of how low the yield for 2-1/2 Treasury securities might be, banks and thrifts would be able to pay up to those rates for deposits with maturities between 2 1/2 years and 4 years. However, because the ceiling rate on SSCs will, in effect, be superseded by the ceiling rate on the new 2 year deposit category, the SSC rule will expire on August 1, 1982.

The Committee also considered the proposal to phaseout interest rate ceilings in terms of its impact on small entities, as required by the Regulatory Flexibility Act (5 U.S.C. § 601, et. seq.). In this regard, the Committee's action does not impose any new regulatory burden, or increase any new reporting or record keeping requirements. Rather, this action eliminates regulatory restrictions on the maximum interest rate payable for certain time deposits on August 1, 1981, and eliminates all such limitations by the end of the phaseout period. Thus, small entities that are depositors generally should benefit from the Committee's action since they will be able to earn higher interest on their time deposits. Small entities that are depository institutions could have increased operating expenses as a result of this action, because it is likely that they will be paying higher interest rates on certain time deposits; however, their competitive position vis-a-vis non-depository institution competitors should be enhanced by their ability to offer higher rates on time deposits.

The statute creating the Committee requires the ultimate elimination of interest rate ceilings on time deposits. The Committee considered several alternatives to accomplish this objective; an analysis of these alternatives is available from the Executive Secretary of the Committee. In the Committee's view, the plan that was adopted provides the greatest flexibility for all depository institutions during the phaseout period, without having a disproportionately adverse impact on any particular size of depository institution.

Since the Committee's action relieves a restriction, deferral of the effective date pursuant to 5 U.S.C. § 553(d) is not necessary. Furthermore, because of the public nature of the meeting where the rule was adopted and the press release issued the day following that meeting, adequate notice of the Committee's action has been given to the public. Accordingly, the Committee finds that good cause exists under Section 1201.6 of the DIDC's regulations for making the effective date less than 30 days from date of publication in the Federal Register.

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 dividends on deposits of Federally

insured commercial banks, savings and loan associations, and mutual savings banks, effective August 1, 1981, the Committee amends Part 1204--Interest on Deposits (12 CFR Part 1204) as follows:

1. Section 106 is amended and restated in its entirety to read as follows:

\$1204.106 -- Time Deposits of Less Than \$100,000 With Maturities of 2-1/2 Years to Less Than 4 Years.

(a) A commercial bank may pay interest on any non-negotiable time deposit with an original maturity of 2-1/2 years to less than four years at a rate not to exceed the higher of one-quarter of one per cent below the average 2-1/2 year yield for U.S. Treasury securities as determined and announced by the U.S. Department of the Treasury immediately prior to the date of deposit, or 9.25 per cent (except as provided in 12 C.F.R § 217.7(g) and in 12 C.F.R. § 329.6(b)(6)). Such announcement is made by the U.S. Department of the Treasury every two weeks. The average 2-1/2 year yield will be rounded by the U.S. Department of the Treasury to the nearest 5 basis points. The rate paid on any such deposit cannot exceed the ceiling rate in effect on the date of deposit.

(b) A mutual savings bank or savings and loan association may pay interest on any non-negotiable time deposit with an original maturity of 2-1/2 years to less than 4 years at a rate not to exceed the higher of the average 2-1/2 year yield for U.S. Treasury securities as determined and announced by the U.S. Department of the Treasury immediately prior to the date of deposit, or 9.5 per cent. Such announcement is made by the U.S. Department of the Treasury every two weeks. The average 2-1/2 year yield will be rounded by the U.S. Department of the Treasury to the nearest 5 basis points. The rate paid on any such deposit cannot exceed the ceiling rate in effect on the date of deposit.

(c) This section expires August 1, 1982.

2. A new section, Section 115, is added to read as follows:

\$1204.115 -- Phaseout Schedule of Interest Rate Ceilings by Maturity For All Time Deposits of Less Than \$100,000.

A commercial bank, mutual savings bank or savings and loan association may pay interest on time deposits of less than \$100,000 at rates not to exceed the rates set out below. Where the ceiling rate for a deposit with an original maturity of more than one year is indexed to the average yield on Treasury securities, the applicable rate ceiling is determined and announced every two weeks by the Department of the Treasury. The effective date for the rate ceiling is the first day after the day the average yield on Treasury securities is announced. The applicable ceiling rate will be rounded to the nearest 5 basis points by the U. S. Department of the Treasury. Where the ceiling rate for a deposit is indexed to the rate for a particular Treasury security (auction average

on a discount basis), the rate is established and announced each week ("Bill rate"). The effective date for the rate ceiling is the first day after the day the rate is announced. The rate paid on all such time deposits cannot exceed the ceiling rate in effect on the date of deposit.

<u>Original Maturity</u>	<u>Commercial Banks</u>	<u>Mutual Savings Banks and Savings and Loan</u>
(a) Effective August 1, 1981 -		
(1) 4 years or more	No limit	No limit
(2) 2-1/2 years to less than 4 years	See Section 106 (12 C.F.R. § 1204.106)	
(b) Effective August 1, 1982 -		
(1) 3 years or more	No limit	No limit
(2) 2 years to less than 3 years	Average yield for 2 year Treasury secu- rities less 1/4 per- centage point (Average yield for 2 year U.S. Treasury securities for governmental units and IRA/Keogh depositors)	Average yield for 2 year Treasury securities
(c) Effective August 1, 1983 -		
(1) 2 years or more	No limit	No limit
(2) 1 year to less than 2 years	Bill rate (52-week)	Bill rate (52-week)
(d) Effective August 1, 1984 -		
(1) 1 year or more	No limit	No limit
(2) less than 1 year	Bill rate (13-week)	Bill rate (13-week)
(e) Effective August 1, 1985 -		
All time deposits	No limit	No limit

By Order of the Committee, July 7, 1981.

Gordon Eastburn  
Gordon Eastburn  
Acting Executive Secretary

**DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE**  
Washington, D.C. 20220

**PRESS RELEASE**

July 8, 1981

**DIDC Final Rules**

The Depository Institutions Deregulation Committee (DIDC) today released the final rules concerning the scheduled phaseout of interest rate ceilings on all time deposits at commercial banks, savings and loan associations and mutual savings banks. The rules, which become effective August 1, were adopted at the Committee's public meeting on June 25.

The Committee also released amendments to its regulations:

1. Delegating certain authority to the Policy Director of the DIDC regarding requests for Committee action and for reconsideration of Committee action.
2. Changing the principal offices of the DIDC from the Federal Reserve Building to the Department of the Treasury, Fifteenth Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

Attached are the final rules for the phaseout and the amended regulations.

**Attachments**

TITLE 12 -- BANKS AND BANKING  
CHAPTER XII -- DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE  
[12 CFR PART 1200]  
Part 1201 -- RULES OF ORGANIZATION AND PROCEDURE  
Part 1202 -- RULES REGARDING AVAILABILITY OF INFORMATION  
Part 1203 -- RULES REGARDING PUBLIC OBSERVATION OF MEETINGS

Change of Agency Address and Delegation of Authority

**AGENCY:** Depository Institutions Deregulation Committee

**ACTION:** Amendment of Final Rules

**SUMMARY:** The Committee has amended its regulations regarding organization and procedure, availability of information, and public observation of meetings to indicate that the principal offices of the Committee have been moved from the Federal Reserve Building to the Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. The Committee has also delegated certain authority to the Policy Director of the Committee, and has established procedures for the review of any action taken pursuant to such delegation.

**EFFECTIVE DATE:** June 25, 1981.

**FOR FURTHER INFORMATION CONTACT:** Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1054 Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

**SUPPLEMENTARY INFORMATION:** On March 26, 1981, the Secretary of the Treasury was elected Chairman of the Depository Institutions Deregulation Committee, succeeding the Chairman of the Board of Governors of the Federal Reserve System in that capacity. In conjunction with this change, the principal offices of the Committee have been moved from the Federal Reserve Building to the Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. The regulations have been amended accordingly.

A new provision has also been added to the existing regulations delegating authority to the Policy Director of the Committee to act on requests for Committee action and reconsideration of action already taken by the Committee. The new provision also provides for the review of any action taken pursuant to such delegation. The new provision is Section 1201.7. The existing Section 1201.7 is re-designated Section 1201.8.

Pursuant to the provisions of Subsection 553(b)(A) of Title 5 of the United States Code, the Committee has determined that the provisions of Section 553, relating to notice and public participation and to deferred effective dates, are not applicable and are not being followed since the amendments are of a procedural nature.

Sections 1201.3, 1201.7 and subsections 1201.6(b), 1202.4(b), 1203.4(c), 1203.4(d), 1203.6(d), 1203.12(b) of Title 12 of the Code of Federal Regulations are amended and restated in their entirety; and Chapter XII of Title 12 of the Code of Federal Regulations is amended by adding a new Section 1201.8, all to read as follows:

§ 1201.3 Offices.

The principal offices of the Committee are in the Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D. C. 20220. The Committee's regular business hours are from 9:00 a.m. to 5:30 p.m. Monday through Friday; but such business hours may be changed from time to time.

§ 1201.6 Procedure For Regulations.

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(b) Public Participation -- The usual method of public participation in the rulemaking process is through the written submission of data, views, or arguments. They should be sent to the Executive Secretary of the Committee, The Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. Such material will be made available for inspection and copying upon request, except as provided in Part 1202 of this chapter regarding availability of information.

\* \* \* \* \*

§ 1201.7 Delegation Of Authority.

(a) Policy Director -- The Policy Director of the Committee shall have the authority to deny (1) a request for Committee action, and (2) a request for reconsideration of Committee action.

(b) Review of Action -- Any action taken by the Policy Director pursuant to subsection 1201.7(a) shall be subject to review by the Committee only if such review is requested by a voting member of the Committee, either on the member's initiative or on the basis of a petition for review by the person whose request was denied. Any such petition for review must be received by the Executive Secretary of the Committee not later than the tenth day after the date of such denial.

§ 1201.8 Amendments.

Except as otherwise provided by law, any of these rules may be altered, amended, or repealed, or new rules may be adopted at any meeting of the Committee by a majority vote of the voting members of the Committee.



PART 1202 -- RULES REGARDING AVAILABILITY OF INFORMATION

§ 1202.4 Records Available To The Public Upon Request.

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(b) Obtaining Access to Records -- Records of the Committee subject to this section are available for public inspection or copying during regular business hours on regular business days at the office of the Executive Secretary of the Committee, The Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. Every request for access to such records shall be submitted in writing to the Executive Secretary of the Committee, The Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W. Washington, D.C. 20220. Such request shall state the name and address of the person requesting such access, shall clearly indicate whether such request is an initial request or an appeal from a denial of information requested pursuant to the Freedom of Information Act, and shall describe such records in a manner reasonably sufficient to permit identification without difficulty.

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PART 1203 -- RULES REGARDING PUBLIC OBSERVATION OF MEETINGS

§ 1203.4 Meetings Open To Public Observation.

\* \* \* \* \*

(c) The agency will maintain a complete electronic recording adequate to record fully the proceedings of each meeting or portion of a meeting open to public observation. Cassettes will be available for listening in the office of the Executive Secretary of the Committee, and copies may be ordered for \$5 per cassette by telephoning or by writing the office of the Executive Secretary of the Committee, The Treasury Department, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

(d) The agency will maintain mailing lists of names and addresses of all persons who wish to receive copies of agency announcements of meetings open to public observation. Requests for announcements may be made by telephoning or by writing the office of the Executive Secretary of the Committee, The Treasury Department, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220.

§ 1203.6 Public Announcements Of Meetings.

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(d) Public announcements required by this section will be posted at the office of the Executive Secretary of the Committee, The Treasury Department, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220, and may be made available by other means or at other locations as may be desirable.

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§ 1203.12 Procedures For Inspection And Obtaining Copies Of Transcriptions And Minutes.

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(b) Requests for copies of transcripts, recordings or transcriptions of recordings, or minutes described in § 1203.11(c) of this Part shall specify the meeting or the portion of the meeting desired and shall be submitted in writing to the Executive Secretary of the Committee, The Treasury Department, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. Copies of documents identified in minutes may be made available to the public upon request under the provisions of Part 1202 of this Chapter (Rules Regarding Availability of Information).

By Order of the Committee, June 26, 1981.

Gordon Eastburn  
Gordon Eastburn  
Acting Executive Secretary

# DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Washington, D.C. 20220

## PRESS RELEASE

July 10, 1981

### Requests for Public Comment

At its meeting on June 25, 1981, the Depository Institutions Deregulation Committee decided to request public comment on several proposals to help bring about the orderly phaseout of interest rate ceilings on time and savings deposits.

The first proposal concerns the method by which the rate ceiling is established for \$10,000 minimum denomination, money market certificates ("MMCs"). In this regard, the Committee requested comments on authorizing an additional method, which would permit depository institutions to offer higher interest rates when market rates are declining. The Committee also proposed that the interest rate ceilings on MMC's be permitted to "float" with the rate on 26-week Treasury bills, thus permitting institutions to vary the interest rate weekly during the term of the deposit. In addition, the Committee also requested comments on the concept of creating a new short-term deposit instrument.

The second proposal concerns increasing the interest rate payable on passbook-type savings accounts. The Committee is required by law to consider this question by September 30, 1981. Accordingly, the Committee has requested public comment on whether to make such an increase and, if so, to what level.

The Committee's proposals are attached.

Attachments

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[12 C.F.R. Part 1204]

(Docket No. D-0020)

Notice of Proposed Rulemaking

Ceiling Rates for 26-week Money Market Certificates

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed Rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") is considering amending its rule relating to the establishment of interest rate ceilings for \$10,000 minimum denomination money market certificates ("MMCs") (12 C.F.R. § 1204.104). The Committee requests comments on the following proposals: (1) to permit the interest rate ceiling on MMCs to be determined by the higher of (a) the rate for 26-week U.S. Treasury bills established immediately prior to the date of deposit or (b) the average of the rates for 26-week U.S. Treasury bills for the eight weeks immediately prior to the date of deposit; and (2) to permit the ceiling rate on an MMC to vary weekly during the term of the deposit. The Committee also requests comments on the creation of a new short-term deposit instrument.

DATES: Comments must be received by August 10, 1981.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed rules to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1054, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number D-0020 and will be available for inspection and copying upon request, except as provided in Section 1202.5 of the Committee's Rules Regarding Availability of Information (12 C.F.R. § 1202.5).

FOR FURTHER INFORMATION CONTACT: Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798); Daniel L. Rhoads, Attorney, Board of Governors of the Federal Reserve System (202/452-3711); F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4261); Rebecca Laird, Senior Associate Counsel, Federal Home Loan Bank Board (202/377-6446); or David Ansell, Attorney, Office of the Comptroller of the Currency (202/447-1880).

SUPPLEMENTAL INFORMATION: Under current regulations of the Committee, the maximum interest rate that may be paid on MMCs by Federally insured depository institutions is indexed to the rate (auction average on a discount basis) for 26-week U.S. Treasury bills

established immediately prior to the date of the deposit ("Bill rate").<sup>1/</sup> Such bills normally are auctioned on Monday and the interest rate ceiling based on the Bill rate is effective the following day (12 C.F.R. § 1204.104). This ceiling rate is effective through the end of the day on which 26-week U.S. Treasury bills are next auctioned.

Under the Committee's first proposal, depository institutions would be permitted to offer MMCs with a fixed interest rate ceiling indexed to the higher of (1) the rate for 26-week U.S. Treasury bills established and announced under the existing procedure, or (2) a moving average of the rates established for 26-week U.S. Treasury bills at the auctions held during the eight weeks immediately prior to the date of deposit. The average Bill rate for the eight week period would be determined weekly and would be announced simultaneously with the current Bill rate for 26-week U.S. Treasury bills. For purposes of determining the applicable interest rate ceiling for MMCs, the rate schedule contained in 12 C.F.R. § 1204.104 would continue to be used for the average Bill rate as well as the single Bill rate. Depository institutions could then determine which of the rates should apply as the ceiling rate for new MMC deposits. The alternative methods of calculating MMC interest ceilings would enable banks and thrift institutions to be more competitive with money market mutual funds ("MMMFS") throughout an interest rate cycle. The most rapid periods of MMMF growth generally have occurred in

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1/ Current ceiling rates for MMC's are as follows:

Commercial Banks

<u>Auction Average</u>	<u>Maximum per cent</u>
7.50 per cent or below	7.75
Above 7.50 per cent	Bill rate plus one-quarter of one per cent

Mutual Savings Banks and Savings  
and Loan Associations

7.25 per cent or below	7.75
Above 7.25 per cent, but below 8.50 per cent	Bill rate plus one-half of one per cent
8.50 per cent, but below 8.75 per cent	9
8.75 per cent or above	Bill rate plus one-quarter of one per cent

# DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Washington, D.C. 20220

PRESS RELEASE

June 26, 1981

## June 25th DIDC Meeting

The Depository Institutions Deregulation Committee (DIDC) at its meeting yesterday adopted a schedule to phase out Federally imposed interest rate ceilings on deposits under \$100,000 at all Federally insured commercial banks, mutual savings banks and savings and loan associations. As the attached schedule indicates, beginning August 1 interest rate ceilings will be eliminated for new deposits with a maturity of four years or more (current ceilings range between 7-1/4 to 8 percent). In addition, the Committee voted to remove the current rate caps (11.75 percent for commercial banks and 12 percent for thrifts) on the 2-1/2 year small saver certificate so the rate can fluctuate with the yield on 2-1/2 year Treasury securities at all levels. The comparable 2-1/2 year Treasury security rate is currently about 14.4 percent.

Secretary Regan said the Committee would review the phase-out plan annually.

The Committee elected Paul Volcker, Chairman of the Federal Reserve Board, to be Vice Chairman of the DIDC. Peter J. Wallison, General Counsel for the Department of the Treasury was elected the General Counsel for the Committee and Gordon Eastburn, Director of the Office of Capital Markets Policy at Treasury, was elected the Committee's Acting Executive Secretary and appointed the Committee's Acting Policy Director.

The Committee voted against a proposal made by Richard Pratt, Chairman of the Federal Home Loan Bank Board, which would have permitted thrift institutions to pay 25 basis points more than commercial banks on the six-month money market certificates at all interest rate levels. Currently, thrifts can only offer this 25 basis point differential when the six-month Treasury bill rate is above 7.25 percent and below 8.75 percent.

The Committee decided to postpone consideration of deregulating ceilings on IRA and Keogh accounts until the September meeting. Congress is considering expanding the eligibility of these accounts to all individuals so the Committee felt that any changes in regulations concerning these accounts should occur after Congress has acted on the matter.

The Committee is interested in receiving responses to the following questions:

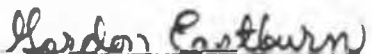
1. Should the interest rates payable on passbook savings accounts be increased and, if so, to what level?
2. Should the rates on ATS (Automatic Transfer Service) and NOW (Negotiable Order of Withdrawal) accounts also be adjusted?
3. What would be the impact of rate adjustments, such as a five percentage point or lesser increase, with regard to the earnings and costs to depository institutions? Responses should address long run, as well as immediate effects on depository institutions.
4. Any other comments or observations on this matter that would provide guidance to the Committee.

In soliciting comments, the Committee is concerned that Congress' intent to provide equitable treatment for small savers be carried forth. However, it is equally concerned that this objective be achieved with a minimum of disruption to depository institutions.

The Regulatory Flexibility Act (5 U.S.C. § 601; et. seq.) requires the Committee to consider the impact of this action on small entities. In this regard, it is the Committee's view that the proposal would not impose any additional reporting or recordkeeping requirements. Furthermore, no alternatives to the proposal were considered because the Committee is under a statutory mandate to consider this matter. Any action taken by the Committee to adjust the rate on passbook accounts could affect all Federally insured depository institutions. An increase in rates could be viewed as beneficial because it will enhance the capability of small depository institutions to compete for deposit funds. However, there may be some negative impact because of increased costs to depository institutions.

All comments should be received by August 10, 1981.

By order of the Committee, July 9, 1981

  
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Gordon Eastburn  
Acting Executive Secretary

declining rate environments when the existing assets in a MMMF's portfolio allow it to offer a yield that is frequently more attractive than current market rates. With the alternative methods of calculating the MMC rate ceiling, however, depository institutions could base their MMC rate on an average of past Treasury bill rates, and thus offer yields more competitive with MMMFs during periods of declining rates. In an environment of rising rates, depository institutions generally have an advantage since they are offering current market rates while existing MMMF assets lock them into lower yields for a short period of time. Since commercial banks and thrift institutions would have the option of indexing MMC rate ceilings to the current Treasury bill rate, they would retain this yield advantage during periods of rising rates. Since this proposal is simply a modification of an existing instrument, the Committee expects the shifting of deposits from lower-cost accounts to be minimized. The Committee therefore requests comment on the proposed alternative method of determining the interest rate ceiling for MMCs and specifically requests comment on the period of time on which to base the average.

The Committee also requests comments on a proposal to allow depository institutions to vary the rate of interest paid on outstanding MMC deposits weekly. Under current rules, the ceiling rate of interest paid on an MMC may not be increased during the 26-week period without imposition of an early withdrawal penalty. The Committee is considering amending its rules to permit depository institutions to offer a floating rate MMC where the interest rate ceiling would be allowed to fluctuate weekly during the term of the deposit. The ceiling rate would be determined weekly by the most recently announced rate for 26-week U.S. Treasury bills. Accordingly, a depository institution could pay interest on an MMC at a rate varying weekly, with the result that a depositor could obtain a return on his or her MMC that reflects market changes. Additionally, a floating rate MMC would offer flexibility and the resulting benefits of the instrument may help institutions attract funds that they would not have attracted otherwise. The Committee requests comment on the concept of a floating rate ceiling on MMCs, and the operational impact that adoption of a such a rule may have on depository institutions.

Additionally, the Committee requests comment on the creation of a new short-term time deposit having characteristics similar to some MMMFs. Such an account, for example, could have a maturity of 91 days and bear interest at a rate indexed to the rate (auction average on a discount basis) for 13-week Treasury bills. A minimum denomination requirement for the initial deposit could be established, and additional deposits with no minimum denomination requirement could be permitted. Withdrawals could be permitted after expiration of perhaps a seven day notice period after the funds have remained on deposit for the initial maturity period. Comment is sought on the desirability of permitting depository



institution's to offer accounts with such characteristics, including comment on the appropriate method of determining the interest rate ceiling, minimum denomination requirements for initial deposits, additional deposits and withdrawals from the account, and the maturity period for the account.

The Committee does not believe that these proposals will increase the regulatory burden on depository institutions, but that these proposals will enhance the ability of depository institutions, particularly small institutions, to compete effectively for funds. In view of the potential benefits that could be derived from these proposed actions on the part of both depository institutions and their customers, the Committee has determined that it is appropriate to provide a thirty-day comment period on this matter. Accordingly, comments on these proposals should be submitted by August 10, 1981.

By order of the Committee, July 9, 1981.

*Gordon Eastburn*

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Gordon Eastburn  
Acting Executive Secretary