FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-236
December 17, 1981

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Amendment

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

The Depository Institutions Deregulation Committee (DIDC) has issued a technical amendment which clarifies that depository institutions may not round any interest rate to the next higher rate in connection with paying interest on 26-week money market certificates (MMCs). The amendment also clarifies that interest may not be compounded on MMCs during the term of the deposit and that the optional ceiling rate is determined on the basis of the average of the four bill rates (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks established and announced at the four auctions held immediately prior to the date of the MMC deposit. The effective date of the amendment was November 1, 1981.

Printed on the following pages is a copy of the material as submitted for publication in the Federal Register. Questions regarding the amendment should be directed to this Bank's Legal Department, Ext. 6171.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,

William H. Wallace

William H. Wallace
First Vice President

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.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR PART 1204

[Docket No. D-0020]

Ceiling Rates for 26-Week Money Market Certificates

AGENCY: Depository Institutions Deregulation Committee

ACTION: Technical amendment to final rule.

SUMMARY: This technical amendment clarifies that depository institutions may not round any interest rate to the next higher rate in connection with paying interest on 26-week money market certificates ("MMCs"). Additionally, this technical amendment clarifies that interest may not be compounded on MMCs during the term of the deposit and that the optional ceiling rate is determined on the basis of the average of the four bill rates (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks established and announced at the four auctions held immediately prior to the date of the MMC deposit.

EFFECTIVE DATE: November 1, 1981.

FOR FURTHER INFORMATION CONTACT: Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798); John Harry Jorgenson, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3778); F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4324); 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 September 22, 1981, the Committee adopted a final rule, effective November 1, 1981, concerning the maximum interest payable on MMCs. The rule provides that depository institutions may pay interest on any nonnegotiable time deposit of $10,000 or more with a maturity of 26 weeks at a fixed interest rate ceiling indexed to the higher of either (a) the rate for 26-week United States Treasury bills auctioned immediately prior to the date of deposit, or (b) a moving average of the discount rate based on the four auction average rates (discount basis) for 26-week U.S. Treasury bills established and announced at the four auctions held immediately prior to the date of deposit. The Committee adopted this rule to provide an alternative method of calculating MMC rate ceilings to enable depository institutions to be more competitive with money market mutual funds and other market instruments, especially during a period of declining rates.

This amendment is intended to clarify the intent of the Committee that the other rules concerning MMCs remain in effect. Consequently, depository institutions may not round any interest rate to the next higher rate, and the prohibition on compounding interest on MMCs during the term of the deposit also continues. These provisions were omitted inadvertently in the Federal Register document previously published on this matter. Finally, the rule is amended to make clear that the optional ceiling rate provided to depository institutions is based on the average of the four most recent Treasury bill rates and not on an average of the four most recent MMC ceiling rates established under this section.

Because this is a technical amendment that clarifies the Committee's earlier action, the Committee finds that application of the notice and public participation provisions of 5 U.S.C. § 553 to this action would be contrary to the public interest, and that good cause exists for making this action effective November 1, 1981.

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 commerical banks, savings and loan associations and mutual savings banks, effective November 1, 1981, the Committee amends section 1204.104 of 12 CFR Part 1204 to read as follows:

PART 1204—INTEREST ON DEPOSITS

§ 1204.104—26-Week Money Market Time Deposits of Less than $100,000.

Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any nonnegotiable time deposit of $10,000 or more, with a maturity of 26 weeks, at a rate not to exceed the ceiling rates set forth below. The ceiling rate shall be based on the higher of either (1) the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the auction held immediately prior to the date of deposit ("Bill Rate"), or (2) the average of the four rates established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 26 weeks at the four auctions held immediately prior to the date of deposit ("Four-Week Average Bill Rate"). Rounding any rate to the next higher rate is not permitted, and interest may not be compounded during the term of this deposit.

Bill Rate or Four-Week Average Bill Rate	Interest Rate Ceiling
Commercial Banks	
7.50 per cent or below	7.75 per cent
Above 7.50 per cent	One-quarter of one percentage point plus the higher of the Bill Rate or Four-Week Average Bill Rate
Mutual Savings Banks and Savings and Loan Associations	
7.25 per cent or below	7.75 per cent
Above 7.25 per cent, but below 8.50 per cent	One-half of one percentage plus the higher of the Bill Rate or Four-Week Average Bill Rate
8.50 per cent or above, but below 8.75 per cent	9 per cent
8.75 per cent or above	One-quarter of one per centage point plus the higher of the Bill Rate or Four-Week Average Bill Rate

By order of the Committee, October 30, 1981.

Steven L. Skancke

Steven L. Skancke
Executive Secretary