FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 82-97
August 11, 1982

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

June 29, 1982 Meeting

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

The Depository Institutions Deregulation Committee (DIDC) took the following actions at its June 29 meeting.

(1) Authorization of a new short-term deposit account

(2) Discussion of additional accounts considered for future adoption

(3) Elimination of restrictions for deposit account categories not subject to interest rate ceilings.

Enclosed are copies of the press release and the material as submitted for publication in the Federal Register. Questions regarding the material contained in this circular should be directed to Dean A. Pankonien in this Bank's Legal Department, Extension 6171.

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

Sincerely yours,

William H. Wallace

William H. Wallace
First Vice President

Enclosure

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
Washington, D.C. 20220

PRESS RELEASE

August 3, 1982

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
June 29, 1982 Meeting

After reviewing the current situation of depository institutions, the Depository Institutions Deregulation Committee (DIDC) took the following actions at its June 29, 1982 meeting:

ACTION 1

The DIDC authorized a new deposit account for Federally-insured commercial banks, savings and loan associations and mutual savings banks, effective September 1, 1982, with the following characteristics:

(1) the interest rate ceiling is equal to the 91-day Treasury bill discount rate for thrift institutions and the discount rate minus 25 basis points for commercial banks;

(2) the interest rate ceiling and differential will end on May 1, 1983, and both will be suspended whenever the 91-day Treasury bill discount rate has been 9% or below for four consecutive Treasury bill auctions, but will be reinstated whenever, prior to May 1, the bill rate rises above 9% for one or more auctions; if the contract so provides, the rate paid on existing accounts may be adjusted at the discretion of the institution, but not less frequently than every 31 days; the differential does not apply to IRA/Keogh and governmental unit deposits in this account; interest rate compounding is permitted without restriction;

(3) the minimum daily balance is $20,000, and if the balance falls below this amount the interest rate is limited to the passbook savings rate;

(4) either a fixed term or a required notice period of 7 to 31 days is permitted at the option of the institution; automatic renewals are permitted with a grace period of one business day;

(5) additional deposits are permitted at any time but must be held in the account for a period of time not less than the notice or maturity period;

(6) sweeps into or from this new account triggered by the balance in this or any other account are not permitted;

(7) notice for withdrawal (if available at the institution's option) is permitted by telephone, other telecommunication, mail, messenger, standing order or in person; payment of withdrawal is permitted by cash, draft or transfer by the institution to the depositor, any depositor account or any third party; however, third-party drafts drawn directly on the new account are not permitted;

(8) the minimum early withdrawal penalty is the loss of interest that has been earned on the amount withdrawn back to the previous notice or maturity date, but no less than the amount of interest that would have been earned for one-half the notice period or term of the account.

(9) premiums for this account category are limited to two per account-holder per year; loans to meet the required balance are not permitted; using this account as collateral also is not permitted; the overdraft rate on transaction accounts may not be lower for holders of the new account than for other depositors that do not hold the new account; the new deposit instrument is not negotiable; and there are no eligibility restrictions on the account.

ACTION 2

In addition to authorizing the new account, the Committee also discussed publishing for public comment one or more accounts that it will consider adopting at such time as the Congress passes legislation expanding the lending and investment powers of thrift institutions. These accounts would be designed to permit depository institutions to be more competitive with money market mutual funds and other alternative investments paying market rates of interest.

ACTION 3

For deposit account categories not subject to Federal interest rate limitations -- currently the 18-month IRA/Keogh accounts and the 3-1/2-year minimum maturity time deposit accounts -- the DIDC determined that depository institutions may exercise complete discretion in establishing the interest rate and amount of interest payable. Depository institutions are not restricted to using only rate indexes established for independent business purposes or indexes not under their control. The institution and the depositor will be free to agree on a rate of interest and any index or schedule for determining a rate of interest. In addition to having discretion in selecting index bases, a depository institution has the discretion to pay a bonus or any additional amount of interest determined in any way it believes appropriate.

This grant of discretion by the DIDC, however, does not override state laws governing contracts, nor advertising and other consumer protection requirements in DIDC member agency rules and interpretations.

The next meeting of the DIDC is scheduled for Friday, September 17, 1982, at 2:00 p.m. in the Department of the Treasury Cash Room. For further information about the actions taken at the June 29 DIDC meeting, depository institutions should contact their primary Federal regulators.

DIDC PRESS CONTACT: Robert Don Levine
(202) 566-2041

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

(12 CFR Part 1204)

[Docket No. D-0025]

7 to 31 Day Time Deposits of $20,000 or More

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has established a new category of time deposit effective September 1, 1982, designed to enable depository institutions to compete more effectively with retail short-term market instruments. The new deposit category has the following principal characteristics: (1) a minimum denomination of $20,000; (2) a fixed maturity or required notice period of seven to 31 days at the discretion of the institution; and (3) a ceiling rate of interest based on the most recent rate established and announced for U.S. Treasury bills with maturities of 91 days (auction average on a discount basis) with institutions having the option of offering the accounts in fixed or variable rate form. The Committee established a temporary interest rate ceiling differential of 25 basis points in favor of thrift institutions; thrifts will be permitted to pay the established rate and commercial banks will be permitted to pay the established rate less 25 basis points. The differential and rate ceiling will not apply when the 91-day Treasury bill rate is 9 per cent or less (auction average on a discount basis) for the four most recent auctions. The interest rate ceiling on this account will expire on May 1, 1983.

EFFECTIVE DATE: September 1, 1982.

FOR FURTHER INFORMATION CONTACT: Rebecca Laird, Senior Associate General Counsel (202/377-6446), Federal Home Loan Bank Board, Mark Leemon, Attorney (202/447-1880), Office of the Comptroller of the Currency, F. Douglas Birdzell, Counsel, or Joseph A. DiNuzzo, Attorney (202/389-4147), Federal Deposit Insurance Corporation, Paul S. Pilecki, Senior Attorney (202/452-3281) or Harry Jorgenson, Senior Attorney (202/452-3778), Board of Governors of the Federal Reserve System; Elaine Boutilier, Attorney-Advisor (202/566-8737), Department of the Treasury.

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of P.L. 96-221; 12 U.S.C. §§ 3501 et seq.) ("Act") was enacted to provide for the orderly phaseout and ultimate elimination of the limitations on the maximum rates of interest and dividends that may be paid on deposit accounts by depository institutions as rapidly as economic conditions warrant. Under the Act, the Committee is authorized to phase out interest rate ceilings by a number of methods including the creation of new account categories not subject to interest rate limitations or with interest rate ceilings set at market rates of interest.

The Committee has considered the issue of short-term time deposits at each of its meetings since June 25, 1981. At that meeting, the Committee determined to request public comment on the desirability of authorizing a new deposit instrument having characteristics similar to money market mutual funds ("MMFs") (46 Fed. Reg. 36712; July 15, 1981). Over 400 comments were received in response to the Committee's request. The Committee considered these comments at its September 22, 1981 meeting and determined to solicit additional public comment (46 Fed. Reg. 50804; October 15, 1981) on several specific proposals for short-term deposit instruments as well as on the general features of a short-term deposit designed to compete with money market instruments that are available in denominations of less than $100,000. On December 16, 1981, the Committee postponed consideration of the matter until its next meeting. At its March 22, 1982 meeting, the Committee considered the comments received and authorized, effective May 1, 1982, a new category of time deposit with a minimum denomination of $7,500, a maturity of 91 days, and a fixed interest rate ceiling based on the most recent rate (auction average on a discount basis) established and announced for U.S. Treasury bills with maturities of 91 days. The Committee established a temporary interest rate ceiling differential of 25 basis points in favor of thrift institutions on this account. (Thrift institutions may pay the rate established and announced, and commercial banks may pay 25 basis points less.)

At that time, the Committee recognized that the new deposit category would not be fully competitive with instruments being offered by non-depository institutions. Therefore, the Committee directed its staff to continue efforts to design additional short-term deposit categories to enable depository institutions to compete more effectively with MMFs.

After consideration of the comments received and the analyses and discussions from previous meetings, as summarized above, the Committee has determined to authorize, effective September 1, 1982, a new category of short-term time deposit with the following characteristics:

--a minimum denomination of $20,000;

--no restrictions on depositor eligibility;

--a maturity or required notice period of no less than seven days and no more than 31 days as agreed to by the depositor and the institution;

--a ceiling rate for all depository institutions based on the 91-day Treasury bill rate (auction average on a discount basis) at the most recent auction ("Bill Rate"). The ceiling rate will become effective the day following the auction. Thrift institutions may offer these deposits at the Bill Rate, while commercial banks are restricted to 25 basis points less than the Bill Rate. (The differential will not apply to IRA and Keogh Plan deposits or to governmental unit deposits, which will be subject to the ceiling rate applicable to thrift institutions.) The rate ceiling will not be in effect if the four most recent Bill Rates are 9 per cent or lower, or on or after May 1, 1983;

--may be offered in fixed rate or a variable rate form;

--the maximum interest rate payable on any day the balance in the account is less than $20,000 is equal to the ceiling rate for regular savings deposits or accounts;

--compounding of interest is permitted;

--may not be issued in negotiable form;

--loans to meet or maintain the required minimum balance of the account are not permitted; loans may not be made by the institution issuing the account using the deposit as collateral; overdraft arrangements that are not secured by, but are paid off by a transfer from, this account at maturity must be on at least the same terms as other overdraft plans offered by the institution;

--a minimum early withdrawal penalty of forfeiture of all interest on the amount withdrawn from the most recent maturity date or date on which notice was given; however, in no event shall the penalty be less than the amount of interest that could have been earned during a period equal to one-half the actual maturity or required notice period;

--a grace period for penalty-free withdrawal after maturity or expiration of notice period of one business day;

--withdrawal of earned interest is permitted without penalty, but earned interest becomes part of principal upon renewal of the account; and

--withdrawal by third-party draft or by other means that facilitate the use of this account as a transaction account are prohibited.

The ceiling rate on the new category is based on the 91-day Treasury bill rate (auction average on a discount basis) ("Bill Rate"). United States Treasury bills maturing in 91 days are auctioned weekly by the Treasury Department, normally on Monday. The 91-day United States Treasury bill rate is announced by the Treasury Department and is published widely in many newspapers throughout the country. The ceiling rate payable for new deposits, as determined by the most recent auction, will be effective on the day following the auction. Until May 1, 1983, the ceiling rate for thrift institutions will be the announced Bill Rate, and the ceiling rate for commercial banks will be the announced Bill Rate minus 25 basis points. The ceiling rate differential in favor of thrift institutions will not apply to IRA/Keogh Plan accounts and accounts held by governmental units and consequently, commercial banks are permitted to pay the ceiling rate authorized for thrift institutions on these accounts. The ceiling rate and differential in favor of thrift institutions will not be in effect for new or renewed deposits when the Bill Rate is 9 per cent or lower for four consecutive auctions. Effective May 1, 1983, the rate ceiling on this account will be terminated.

The ceiling rate of interest on a fixed rate, fixed maturity time deposit will be the ceiling rate in effect on the day of deposit for the life of the instrument (seven to 31 days as determined by the depository institution). If such a deposit were renewed at maturity, the new ceiling rate would be determined by the most recent auction of 91-day Treasury bills. The ceiling rate on variable rate time deposits and on all notice accounts will initially be the rate in effect on the day of deposit but may change during the term of the instrument when auctions of 91-day Treasury bills occur. For example, typically, a seven-day variable rate instrument or seven-day mandatory notice account opened on a Thursday initially would have a ceiling rate based on the Bill Rate as determined by the previous Monday's auction. However, the ceiling rate could change on the following Tuesday to the Bill Rate determined at the auction held on the previous day. In any event, the ceiling rate that applies to a notice account must change at least every 31 days. That is, an institution may establish a seven-day notice account that provides for the rate to change every 31 days. The ceiling rate that applies on the 31st day is determined by the most recent auction of 91-day Treasury bills.[1/] For a variable rate, fixed term deposit, the rate may change at any time during the life of the deposit, provided the new rate is not greater than the interest rate ceiling in effect at the time of the change. Upon renewal of a fixed term, variable rate account, the ceiling rate that applies at renewal is the ceiling rate in effect on the date of renewal.

If a withdrawal causes the principal balance of the account to fall below the $20,000 required minimum daily denomination, interest may not be paid on the account in excess of the ceiling rate on an ordinary passbook savings account for any day that the account balance is below $20,000. With regard to the use of premiums, the Committee determined that institutions will be permitted to give premiums in connection with this deposit instrument; however, an institution may give no more than two premiums per accountholder per year. This rule differs from the Committee's current premium rule in that each depositor that holds this type of account will be limited to two premiums per year as opposed to being limited to two premiums per account per year.

Additional deposits may be made to the account at any time; however, such funds, including deposits made to bring the account balance up to at least $20,000, must remain on deposit for the full notice or maturity period established by the depository institution. For fixed maturity accounts, any of the following procedures may be adopted by a depository institution with respect to additional deposits:

(1) each deposit resets the maturity of the account;

1/ An institution is not required by regulation to change a rate on the 31st day if the rate the institution is paying on the account is less than the ceiling rate in effect at that time. However, a change in the rate might be required under the terms of the deposit contract.

(2) each deposit would be subject to "first-in, first-out" accounting to assure that each additional deposit was maintained for the term of the account;

(3) an institution is permitted to set up an "accounting cycle" equal to the original term of the offered account. New deposits received after the accounting cycle begins would be regarded as maturing at the end of the next complete accounting cycle. In effect, each deposit would be on "hold" until the end of the following cycle; or

(4) any other procedure that ensures that an additional deposit remains in the account for the entire maturity period.

Examples of acceptable procedures for notice accounts include the following:

(1) any additional deposit would cancel any notice to withdraw that had already been received, unless that notification called for a longer remaining interval than the minimum notice period;

(2) "first-in, first-out" accounting to ensure that each deposit would be maintained for at least the minimum notice period;

(3) establishment of an accounting cycle equal to the notice interval. For funds received after the beginning of an accounting cycle, notice of withdrawal could be given only at, or after, the beginning of the next accounting cycle. In effect, the opportunity to give notice on any particular deposit would be deferred until the beginning of the next accounting cycle; or

(4) any other method that ensures that an additional deposit remains in the account for the entire notice period.

Depository institutions are not permitted to "sweep" funds into this account from another account if such transfers are triggered by the level of the balance in any account.

The Committee has not established a regulatory prohibition on the size or number of withdrawals from the new account, provided that the funds to be withdrawn have satisfied the minimum maturity or notice period. Generally, all withdrawals from a term account prior to maturity and all withdrawals made without satisfying the notice requirement are subject to the imposition of an early withdrawal penalty.2/ The Committee determined that the minimum penalty for early withdrawal for this category of account shall be the forfeiture of all interest actually earned on the amount withdrawn from the most recent of the date of deposit, date of renewal, or date notice was given; however,

2/ Exceptions to the early withdrawal penalty rule related to death, mental incompetency, IRA/Keogh accounts, and loss of deposit insurance due to mergers remain in effect.

in no event shall the early withdrawal penalty imposed on this account be less than the amount of interest that could have been earned on the amount withdrawn during a period equal to one half of the actual maturity or required notice period. For an example, if a depository institution provides for a 7-day notice period prior to withdrawal and the depositor makes a premature withdrawal 5 days after notice was given, the minimum early withdrawal penalty would be forfeiture of all interest earned for 5 days on the amount withdrawn. If, however, the depositor makes a premature withdrawal 2 days after notice was given, the minimum early withdrawal penalty would be forfeiture of all interest that could have been earned for 3-1/2 days (one half of 7 day notice period) on the amount withdrawn.

Interest earned may be withdrawn at any time during the term of the account without penalty (12 C.F.R. § 1204.101). However, in accordance with the Committee's Rules (12 C.F.R. § 1204.101) all earned interest will become principal upon renewal of the account and may not be withdrawn prior to a subsequent maturity without penalty unless the interest rate at renewal is identical with the rate paid during the previous term. With regard to notice accounts, an institution may permit interest earned to be withdrawn at any time without penalty. The Committee also established a one business-day grace period for penalty-free withdrawal after maturity or expiration of the required notice period. If a deposit is not automatically renewable, a depository institution may provide by contract that the account will be converted to another type of deposit or account. For a commercial bank or a mutual savings bank, if no provision is made regarding the disposition of funds at maturity, then the account would be regarded as a demand deposit and earns no interest. For savings and loan associations, if no provision is made regarding the disposition of funds at maturity, then the account would be a savings account.

Institutions must require at least the minimum notice, which may be given by telephone or other telecommunication, mail or messenger, in person (over-the-counter or through an ATM), or by standing order for a fixed amount. For term accounts, withdrawals may be made by any of the same methods. Payment of withdrawals by the institution may be in the form of check or cash paid to the depositor, by cash, draft or electronic transfer by the institution to a third party, or by transfer by the institution to any other account held by the depositor. Withdrawals may not be made from the account by third-party draft drawn directly on the account by the depositor. In addition, a depository institution may not pay or transfer funds from this account to another account if triggered by the level of the balance in any account.

Depository institutions will not be permitted to make loans to depositors upon the security of this category of time deposit or for the purpose of meeting or maintaining the minimum balance requirement for this account category even if the loan is not secured by the deposit. In addition, if funds are transferred from this account to pay an overdraft on a transaction account, the interest rate or fee charged on the overdraft may not be lower than that charged on overdrafts for customers that do not have the $20,000, seven to 31-day account.

The Committee believes that the new instrument will assist depository institutions in competing with other financial instruments that offer market rates of return on short-term investments such as MMFs. The new deposit category should assist depository institutions to attract new funds by competing with other investment alternatives, help stem deposit outflows, and enhance the ability of institutions to attract and retain valuable customer relationships.

The Committee considered the potential effect on small entities of this new deposit category, as required by the Regulatory Flexibility Act (5 U.S.C. § 603 et seq.). In this regard, the Committee's action would not impose any new reporting or recordkeeping requirements. Small entities that are depositors generally should benefit from the Committee's action since the new instrument will provide them a market rate of return on relatively short-term deposits. The competitive position of small depository institutions vis-a-vis nondepository competitors should be enhanced by their ability to offer a somewhat more competitive short-term instrument at market rates. The new funds attracted by the new instrument (or the retention of deposits that might otherwise have left the institution) could be invested at a positive spread and would therefore at least partially offset the higher cost associated with the shifting of low-yielding accounts.

LIST OF SUBJECTS IN 12 CFR Part 1204: Banks and banking.

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 September 1, 1982, the Committee amends Part 1204 (Interest on Deposits) as follows:

1. By adding a new section 121 as follows:

§ 1204.121 -- Seven-to 31-Day Time Deposits of $20,000 or More.

(a) Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any nonnegotiable time deposit of $20,000 or more, with a maturity or required notice period of not less than seven days nor more than 31 days, at a rate not to exceed the ceiling rates set forth below. However, a depository institution shall not pay interest in excess of the ceiling rate for regular savings deposits or accounts on any day the balance in a time deposit issued under this section is less than $20,000. Rounding any rate upward is not permitted.

(b)(1) For fixed interest rate, fixed maturity time deposits issued under this section, the ceiling rate of interest payable

(i) by mutual savings banks and savings and loan associations shall be the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 91 days at the auction held immediately prior to the date of deposit or renewal ("Bill Rate"); and

(ii) by commercial banks shall be the Bill Rate minus one-quarter of one percentage point (25 basis points).

(2) For variable interest rate, fixed maturity time deposits and for all notice accounts issued under this section, the ceiling rate of interest payable

(i) by mutual savings banks and savings and loan associations initially shall be the Bill Rate in effect on the date of opening or renewal of the account. The interest rate on the account then may be adjusted to be not in excess of the Bill Rate established and announced at the most recent subsequent auction during the life of the deposit but not less often than every 31 days; and

(ii) by commercial banks on such deposits shall be the ceiling rate established for thrift institutions under paragraph (b)(2)(i) of this section minus one-quarter of one percentage point (25 basis points).

(3) Notwithstanding paragraphs (b)(1) and (b)(2) of this section, a commercial bank may pay interest at a rate not to exceed the ceiling rate payable by mutual savings banks and savings and loan associations on any time deposit issued under this section which consists of funds deposited to the credit of, or in which the entire beneficial interest is held by:

(i) the United States, any state of the United States, or any county, municipality or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, American Samoa, Guam, or political subdivision thereof; or

(ii) an individual pursuant to an Individual Retirement Account agreement or Keogh (H.R. 10) Plan established pursuant to 26 U.S.C. (I.R.C. 1954) 219, 401, 404, 408 and related provisions.

(4) The ceiling rates in paragraphs (b)(1), (b)(2), and (b)(3) of this section shall not apply

(i) if the Bill Rate is 9 per cent or below at the four most recent auctions of U.S. Treasury bills with maturities of 91 days held prior to the date of deposit or renewal. A commercial bank, mutual savings bank, or savings and loan association may pay interest at any rate as agreed to by the depositor on this category of deposit for deposits issued or renewed during such period; or

(ii) effective May 1, 1983. A commercial bank, mutual savings bank, or savings and loan association may pay interest at any rate as agreed to by the depositor on this category of deposit for deposits issued or renewed on or after May 1, 1983.

(c)(1) A depository institution is not permitted

(i) to lend funds to a depositor upon the security of a time deposit that it has issued under this section, or

(ii) to lend funds to a depositor to meet or maintain the minimum denomination requirement of a time deposit issued under this section.

(2) The rate of interest and any other charges imposed on an overdraft credit arrangement to which withdrawals are paid or to which payments upon maturity or expiration of a required notice period are made from an account issued under this section must be not less than those imposed on such overdrafts for customers that do not possess an account issued under this section at the same institution.

(d) Sections 102 and 103 of the Part shall not apply to time deposits issued under this section. Where all or any part of a time deposit issued under this section is paid before maturity or expiration of the required notice period, a depositor shall forfeit an amount at least equal to the greater of

(i) all interest earned on the amount withdrawn from the most recent of the date of deposit, date of maturity, or date on which notice was given, or

(ii) all interest that could have been earned on the amount withdrawn during a period equal to one-half the maturity period or required notice period.

Where all or any part of a time deposit issued under this section is withdrawn within one business day after the maturity date of the deposit or the date of expiration of notice of withdrawal, no early withdrawal penalty is required to be applied on the amount withdrawn.

(e) Additional deposits to an account issued under this section with a fixed maturity must be maintained in the account for a period at least equal to the original term of the account and may be regarded as having matured individually and having been redeposited at intervals equal to such period. For accounts issued under this section that are subject to a notice period, additional deposits must remain in the account for a period equal to at least the notice period before such funds may be withdrawn without the imposition of an early withdrawal penalty.

(f) Deposits to any account issued under this section may not be made by automatically transferring funds from another account of the depositor at the same institution where the transfer is initiated by the level of the balance in any account.

(g)(1) Withdrawals from any account issued under this section may not be made (i) by check, draft, or other third party payment instrument or instruction drawn or issued by the depositor, or (ii) by automatically transferring funds to another account of the depositor where the transfer is initiated by the level of balance in any account held by the depositor.

(2) Payments at maturity or withdrawals may be paid by (i) check or cash to the depositor, (ii) cash, draft, or electronic transfer issued by the institution to a third party, or (iii) transfer to any other account held by the depositor.

(3) Notice of withdrawal of an account issued under this section may be delivered by the depositor to the institution by telephone or other telecommunication, mail, messenger, standing order, or by appearance in person at the offices or premises of the institution.

2. By revising the first sentence of paragraph (a) of section 109 to read as follows:

§ 1204.109 -- Premiums Not Considered Payment of Interest.

(a) Premiums, whether in the form of merchandise, credit, or cash, given by a depository institution to a depositor will be regarded as an advertising or promotional expense rather than a payment of interest if: (1) the premium is given to a depositor only at the time of the opening of a new account or an addition to, or renewal of, an existing account; (2) except as provided in paragraph (c) of this section, no more than two premiums per account are given within a 12-month period; and (3) the value of the premium or, in the case of articles of merchandise, the total cost (including shipping, warehousing, packaging, and handling costs) does not exceed $10 for deposits of less than $5,000 or $20 for deposits of $5,000 or more. * * *

*   *   *   *   *

3. Section 109 is amended by adding a new paragraph (c) as follows:

§ 1204.109 -- Premiums Not Considered Payment of Interest.

* * * * *

(c) For accounts issued under section 121 of this Part, no more than two premiums per depositor are permitted within a 12-month period.

By order of the Committee, August 3, 1982.

Gordon Eastburn

Gordon Eastburn
Policy Director