FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 83-5
January 17, 1983

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

(Proposed Rulemaking)

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

The Depository Institutions Deregulation Committee (DIDC) has requested public comment, by February 1, 1983, on whether it should accelerate the deregulation of interest rate ceilings on deposits and should simplify other regulations on existing deposit catagories.

The DIDC has proposed certain rule changes as a result of recent statutory and regulatory changes which may have an effect on the mix of short-term and long-term deposits of depository institutions. Comments should be directed to Mr. Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1058, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C., 20220 and should refer to Docket No. D--0031.

Attached are copies of the DIDC's 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 this Bank's Legal Department, Extension 6171.

Additional copies of this circular will be furnished upon request to the Public Affairs Department, Extension 6289.

Sincerely yours,

William H Wallace

William H. Wallace
First Vice President

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE
Washington, D.C. 20220

PRESS RELEASE

December 22, 1982

Proposed Rules

Today the Depository Institutions Deregulation Committee (DIDC) released the attached request for comments on proposed rules discussed at the December 6, 1982 DIDC meeting.

The Committee is requesting comment on whether it should accelerate the deregulation of interest rate ceilings on time deposits and/or simplify other regulations on existing time deposit categories.

Comments must be received by February 1, 1983.

Attachment

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[12 CFR Part 1204]

(Docket No. D-0031)

Deregulation of Deposit Rate Ceilings

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: As a result of the passage of the Garn-St Germain Depository Institutions Act of 1982, the Depository Institutions Deregulation Committee ("Committee") is requesting public comment on whether it should accelerate the deregulation of interest rate ceilings on deposits and should simplify other regulations on existing deposit categories. Specifically, the Committee requests comment on whether it should: (1) remove all interest rate ceilings immediately OR deregulate accounts with maturities of 91 days or more, except for a minimum early withdrawal penalty OR eliminate all existing time deposit categories with maturities of less than 91 days and extend the maximum maturity on the new Money Market Deposit Account (12 C.F.R. § 1204.122) to 91 days; (2) accelerate its current schedule for phasing out interest rate ceilings; (3) simplify the current rate ceiling schedules; (4) simplify interest rate ceilings and other characteristics on the 26-week money market certificate and the 91-day time deposit to make them more consistent; and (5) simplify and rationalize other features of account categories, such as minimum denomination and compounding of interest, to make them more consistent.

DATES: Comments must be received by February 1, 1983.

ADDRESS: Interested parties are invited to submit written data, views, or arguments regarding the proposal to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1058, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number D-0031. Such material will be made available for inspection and copying upon request except as provided in the Committee's Rules Regarding Availability of Information (12 CFR § 1202.5).

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

List of Subjects In 12 CFR Part 1204: Banks, banking.

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of P.L. No. 96-221; 12 U.S.C. §§ 3501 et seq.) ("DIDA") 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 DIDA, the Committee is authorized to phase out interest rate ceilings by any one of a number of methods, including the elimination of interest rate limitations applicable to particular categories of accounts, the creation of new account categories not subject to interest rate limitations, or with interest rate ceilings set at market rates of interest, or any combination of the above.

The Garn-St Germain Depository Institutions Act of 1982, Pub. L. 97-320 ("Garn-St Germain Act") amended the DIDA and required the Committee to authorize the new Money Market Deposit Account ("MMDA"). After taking public comment, the Committee on November 15, 1982, did create such an account to enable institutions to compete with money market mutual funds, effective December 14, 1982. (47 Fed. Reg. 53710 November 29, 1982) Section 326 of the Garn-St Germain Act requires that the interest rate differential in favor of thrifts be eliminated on or before January 1, 1984.

In March 1982, the Committee adopted a deregulation schedule that phases out interest rate ceilings beginning with longer-term time deposits. With the deregulation schedule in place, the focus of the Committee turned to short-term deposit instruments. Prevailing high interest rates had caused a continued erosion of low-cost deposits at banks and thrifts, as depositors sought market rates elsewhere, particularly through money market mutual funds ("MMFs"). The Committee addressed this problem by authorizing, effective May 1, 1982, a 91-day time deposit with a $7,500 minimum denomination indexed to the 91-day Treasury bill rate, and establishing effective September 1, 1982, a 7- to 31-day deposit account with a $20,000 minimum denomination, also indexed to the 91-day Treasury bill rate. On December 6, 1982, the Committee further deregulated short-term deposits by exempting from interest rate ceilings NOW accounts with average balances of $2,500 that are subject to certain of the restrictions that apply to the MMDA to be effective January 5, 1983. The Committee also reduced to $2,500 the minimum denomination on the 7- to 31-day, the 91-day, and the 26-week MMC categories of deposits, effective January 5, 1983, and eliminated the indexed ceiling on the 7- to 31-day account, effective on that date.

Because of the effect the statutory and regulatory changes summarized above may have on the mix of short-term and long-term deposits of depository institutions, the Committee requests comments on several proposals pertaining to existing interest rate ceilings and account characteristics. The Committee wishes to encourage interested parties to comment on the effect that these changes may have on earnings and liquidity.

Even if opposed to any changes or in favor of complete deregulation of interest rate ceilings, interested parties are requested to comment on changes that should be made if the Committee does decide to accelerate the schedule or to amend the short-term deposit ceiling rate schedules in order to simplify their characteristics and make them more consistent.

Current Ceiling Rate Structure (see TABLE 1)

Under the current interest rate ceiling structure for deposits at federally insured commercial banks, savings and loan associations, and mutual savings banks, most of the interest rate ceilings on traditional, fixed-rate time deposits are superseded as a practical matter by account categories with indexed rates or with no rate ceiling. Also, the MMDA has no interest rate ceiling, and the 7- to 31-day account, effective January 5, 1983, will also have no interest rate ceiling. Deposit categories with maturities of 91 days, 6 months and 2-1/2 to less than 3-1/2 years are available, but such accounts are subject to rate ceilings tied to an index. Other categories with maturities between 31 days and 3-1/2 years are subject to the fixed-rate ceiling schedule. With the exception of the 1-1/2 year IRA/Keogh deposit category (which has a limited purpose), depository institutions cannot offer ceiling-free deposits with maturities of between 31 days and 3-1/2 years.

TABLE 1

CURRENT TIME DEPOSIT CEILING RATE STRUCTURE[1/]

Maturity of Account	Commercial Banks	S&Ls and MSBs
Fixed Ceilings		
14 to 89 days[2/]	5-1/4	n.a.
90-day to 1 year[2/]	5-3/4	6
1 to 2-1/2 years	6	6-1/2
2-1/2 to 4 years[3/]	6-1/2	6-3/4
4 to 6 years[3/]	7-1/4	7-1/2
6 to 8 years[3/]	7-1/2	7-3/4
8 years and over[3/]	7-3/4	8
Indexed or Ceiling-Free		
1 to 31-day MMDA	No ceiling	No ceiling
7- to 31-day account[4/]	No ceiling	No ceiling
91-day account[5/]	Indexed	Indexed
6-month MMCD[5/]	Indexed; ceiling rate does not decline below 7.75 percent	Indexed; ceiling rate does not decline below 7.75 percent
18-month IRA/Keogh Account	No ceiling	No ceiling
2-1/2-year to less than 3-1/2-year[6/]	Indexed; ceiling rate does not decline below 9.25 percent	Indexed; ceiling rate does not decline below 9.50 percent
3-1/2-year or more[7/]	No ceiling	No ceiling

1. Does not describe all details of current ceiling rates.
2. Partially superseded by indexed accounts.
3. Completely superseded by indexed or ceilingless accounts.
4. Ceiling removed effective January 5, 1983.
5. See TABLE 3 for full detail of the index rate schedule for these accounts.
6. Indexed to average yield for Treasury securities with comparable remaining maturity. See 12 C.F.R. § 1204.106. Effective April 1, 1983, this category becomes "1-1/2 year to less than 2-1/2 years."
7. These accounts have characteristics that distinguish them from fixed ceiling time deposits. See 12 C.F.R. § 1204.119. Effective April 1, 1983, this category becomes "2-1/2 years or more."

Current Phaseout Schedule (see TABLE 2)

The phaseout schedule adopted by the Committee in March of 1982 established a new deposit category with a maturity of 3-1/2 years or more and no interest rate ceiling. Institutions were free to offer the deposit in any denomination but had to at least offer it in a $500 denomination. Under the schedule, the maturity of the instrument will be reduced annually by one year until March 31, 1986, at which time it will have the minimum maturity for time deposits (currently 14 days).

The gap between short-term and long-term ceiling-free deposits will be narrowed somewhat on April 1, 1983, when institutions will be able to offer ceiling-free deposits with maturities of 2-1/2 years or more. However, a 31-day to 2-1/2 year gap would remain, restricting depositors and institutions alike in their selection of ceiling-free accounts to those with very short, or with still relatively long, maturities. Since rate ceilings were initially intended to reduce the risks to institutions of offering short-term interest bearing deposits, and since, in any event, the existence of indexed rate ceilings in the near-term ceiling structure may induce institutions to shorten their liability structure unduly, the Committee believes it is appropriate to consider removing existing interest rate ceilings on longer-term deposits (or accelerating their removal) to allow institutions to offer a range of deposit instruments distinguished primarily by a negotiated rate and maturity. This is especially true since the short-term, ceiling-free accounts may be attractive enough to draw significant funds from longer-term indexed accounts. The flexibility of the management of depository institutions would also be increased by such an action.

TABLE 2

CURRENT INTEREST RATE CEILING DEREGULATION SCHEDULE
FOR INDEXED TIME DEPOSITS

Original Maturity	Commercial Bank Ceiling	Thrift Ceiling
Effective April 1, 1983		
2-1/2 years or more[1]	Ceiling eliminated	Ceiling eliminated
1-1/2 years to less than 2-1/2 years[2]	Thrift rate less .25%.	Average yield for 1-1/2 year Treasury securities.
Effective April 1, 1984		
1-1/2 years or more[3]	Ceiling eliminated	Ceiling eliminated
Effective April 1, 1985		
6 months or more[4]	Ceiling eliminated	Ceiling eliminated
Effective March 31, 1986		
14 days or more[5]	Ceiling eliminated	Ceiling eliminated

1. See 12 C.F.R. § 1204.119(d).
2. See 12 C.F.R. § 1204.106(c)(2).
3. See 12 C.F.R. § 1204.119(e).
4. See 12 C.F.R. § 1204.119(f).
5. See 12 C.F.R. § 1204.119(g).

COMMENTS ON ELIMINATION OR ACCELERATION OF CEILINGS

Elimination of Rate Ceilings

The Committee requests comment on whether to eliminate the current rate ceilings (TABLE 1) completely at its next meeting. The Committee is particularly interested in comments on the projected effect such an action would have on institutional earnings and deposit flows. While such an action would effectively eliminate the need for the various existing deposit categories, such as the 91-day, and the 26-week MMC and the short-term fixed-ceiling deposit categories, it would not actually eliminate these accounts. Institutions would probably want to retain some of these categories because they are currently popular with consumers. Eventually, however, the accounts will probably become obsolete like the longer-term fixed-ceiling time deposits shown in the top panel of TABLE 1. Further, while elimination of the rate ceiling structure would automatically remove any interest rate differentials on deposit categories in favor of thrift institutions, the elimination of all differentials must occur on or before January 1, 1984, under section 326 of the Garn-St Germain Act. Thus, if the Committee eliminated all existing ceilings at its next meeting, and assuming a delayed effective date, the elimination of the thrift differential would be accelerated by no more than nine months.

An alternative to the removal of the current rate ceiling structure was suggested to the Committee by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC suggests that the Committee completely deregulate all time deposits with original maturities of 91 days or more by removing all interest rate ceilings and other restrictions (except for an early withdrawal penalty) on such time deposits. For such time deposits, if funds are withdrawn within the first 90 days of the deposit, a minimum early withdrawal penalty, requiring the forfeiture of one-month's interest (not to exceed the interest earned), would be imposed. This penalty would be necessary so that these totally deregulated time deposits can not be structured to provide instant liquidity. If withdrawal is permitted after the first 90 days, institutions would be permitted, but not required by regulation, to impose an early withdrawal penalty. The remaining rate structure on time deposits with maturities of 31 to 90 days would be phased out on March 31, 1986. Alternatively, the Federal Home Loan Bank Board suggested that all categories of time deposits with original maturities of 91 days or less be eliminated and that the maximum maturity of the money market deposit account be extended to 91 days from its current maximum of 31 days. The balance of the ceiling rate structure would be phased out as currently scheduled (TABLE 2).

Acceleration of Rate Schedule

As mentioned above, the Garn-St Germain Act accelerated the total elimination of the thrift differential from March 31, 1986, to on or before January 1, 1984 and directed the Committee to create the ceiling-free MMDA. Consistent with this Congressional acceleration of the phaseout of limitations on the payment of interest, the Committee also requests comment on accelerating its current schedule (TABLE 2) for phasing out ceilings in general in the event the Committee finds that total deregulation or the removal of ceilings is inappropriate at this time. For example, the entire schedule could be advanced one year so that elimination of all ceilings occurs on April 1, 1985, instead of March 31, 1986, or the one-year interval in TABLE 2 could be reduced to six months. The Committee could also accelerate the removal of ceilings on longer-term deposits while keeping the short-term portion of the schedule intact. For example, it could accelerate deregulation of ceilings on deposits with maturities of 1-1/2 years or more to April 1, 1983, from April 1, 1984, but leave deregulation of rate ceilings on deposits with maturities of 6 months to 1-1/2 years until the currently scheduled date of April 1, 1985.

COMMENTS ON SIMPLIFICATION

In addition to requesting comment on deregulation in general, the Committee also requests comments on how it could simplify current ceiling rate schedules and current account characteristics. The Committee also requests comment on whether it should rescind ceilings on fixed-rate deposits that have been, or will be, superseded by indexed or ceiling-free account categories (TABLE 1). The Committee also requests comment on whether it should promptly extend indexing to all categories of fixed-rate deposits that have not yet been superseded by indexed ceilings or by removal of ceilings (TABLE 1). Ceilings on these newly indexed accounts would be phased out in accordance with the schedule on TABLE 2.

Short-Term Deposit Rate Schedule (TABLE 3)

The current ceiling rate structure for the 26-week money market certificate is presented in the top portion of TABLE 3. The schedule is rather complex in that two alternative index rates are used--the most recent auction rate on 6-month Treasury bills or an average of the bill rates at the four most recent auctions--and the formula for determining the ceiling rate changes at five different levels of the index rate.

TABLE 3

CURRENT CEILING SCHEDULES FOR SHORT-TERM DEPOSIT ACCOUNTS

Index Rate[1]	Commercial Bank Ceiling	Thrift Ceiling	Differential
26-week money market certificate			
greater than 8.75 percent	index rate + .25	index rate + .25	0
8.5 to 8.75	index rate + .25	9.0	0 to .25
7.5 to 8.5	index rate + .25	index rate + .50	.25
7.25 to 7.5	7.75	index rate + .50	.25 to 0
less than 7.25	7.75	7.75	0
91-day account			
greater than 9.0 percent[2]	index rate - .25	index rate	.25
9.0 percent or below[3]	index rate	index rate	0
7- to 31-day account[4]	no ceiling	no ceiling	---

1. The index rate for the 26-week MMC is the higher of the most recent auction rate (auction average, discount basis) on 6-month Treasury bills or an average of the four most recent auction rates. The index rate on the 91-day account is the most recent auction rate (auction average, discount basis) on 3-month Treasury bills.
2. The differential is scheduled to be removed on May 1, 1983. At that time, all institutions will be able to pay the index rate at all interest rate levels.
3. The index must be 9.0 percent or below for four consecutive auctions.
4. At its December 6, 1982 meeting, the Committee determined that, effective January 5, 1983, the 7-to 31-day account would become ceiling free. This action was taken because the ceiling (indexed to the 91-day Treasury bill rate) became meaningless with the authorization of the new money market deposit account, which is ceiling free.

The methods of establishing the ceilings on the newer 91-day account (authorized beginning in May 1982) is less complex than the MMC, with the formula for determining the ceiling rate at various index rate levels changing only once, namely, when the 3-month Treasury bill rate reaches 9.0 percent (middle portion of TABLE 3). In addition to different ceiling rate structures, the thrift differential is applied inconsistently to these accounts. It is added to the index rate in the case of the 26-week MMC but is deducted from the index in the case of the 91-day deposit. Moreover, in the case of the 26-week MMC the differential is removed if the index rate goes above 8.75 percent and is removed on the 91-day account when the index rate falls below 9 per cent. However, the differential on the 91-day account is scheduled to be eliminated on May 1, 1983, so conforming this feature on these two accounts solely for the purpose of consistency may be unnecessary.

The different methods of calculating the ceilings on the MMC and the 91-day instrument have resulted in a confusing, and in some instances an inconsistent, situation. Therefore, the Committee requests comment on whether and how this schedule should be revised.

Simplification of Other Account Characteristics (TABLE 4)

Even if the Committee determines to make no changes to the short-term rate ceiling schedule, other characteristics of the short-term deposit categories could be made more consistent in order to simplify the current account structure. Some of the differences in the short-term deposit accounts are presented in TABLE 4.

TABLE 4

SELECTED CHARACTERISTICS OF SHORT-TERM DEPOSIT ACCOUNTS

Characteristic	26-week MMC	91-day account	7- to 31-day account
Minimum denomination	$2,500[1]	$2,500[1]	$2,500[1]
Loophole loans	permitted	prohibited	prohibited
Index rate	6-month bill rate or 4-week average of bill rates	3-month bill rate	N.A.
Relation between index rate and ceiling rate	presented in table 1	presented in table 1	N.A.
Minimum ceiling	7.75%	none	none
Compounding	prohibited[2]	prohibited[3]	unrestricted
Differential	when index rate is between 7.25 and 8.75%[4]	when index rate is above 9.0%[5]	N.A.
Differential on IRA/Keogh accounts and deposits of governmental units	Banks may pay the thrift rate for these deposits	Differential applies to these deposits	N.A.
Scheduled elimination of differential	Dec. 31, 1983[6]	May 1, 1983	---
Scheduled elimination of ceiling	April 1, 1985	March 31, 1986	---

1. Effective January 5, 1982.
2. Although compounding is prohibited, a saver effectively will receive semiannual compounding if the original deposit plus interest is reinvested in another MMC at maturity.
3. Although compounding is prohibited, a saver effectively will receive quarterly compounding if the original deposit plus interest is reinvested in another 91-day certificate at maturity.
4. The full 25 basis point differential is in effect only when the index rate is between 7.5 and 8.5 percent.
5. Scheduled to be eliminated May 1, 1983.
6. Prior to the passage of the Garn-St Germain Depository Institutions Act, this differential was scheduled to be eliminated on April 1, 1985.

In view of these complexities, the Committee requests comment on whether changes should be made to the existing regulations authorizing these accounts in order to make the regulations less cumbersome and more uniform. The Committee is particularly interested in comments on (1) the relation between the index rate and the ceiling rate, (2) the thrift ceiling rate differential, (3) loophole loans, (4) the use of the four-week average method of calculating the MMC ceiling, and (5) the frequency of compounding that is permitted.

The Committee also requests comment on whether it should phase out minimum denomination requirements. For example, combining the phaseout of the minimum denomination on the MMDA and other short-term accounts with the Committee's current rate deregulation schedule would have the effect of phasing out passbook and NOW account ceiling rates as well as the minimum denomination on NOW accounts exempt from rate ceilings. Ceilings on savings accounts and on NOW accounts not subject to a minimum denomination requirement are not eliminated until March 31, 1986 under the Committee's current phaseout schedule. As the minimum denomination of indexed or ceiling-free, short-term time deposits is reduced under a phaseout schedule, the ceiling rate on savings and NOW accounts would become less binding, and more depositors would become eligible for the higher rate. For example, the $2,500 minimum denomination on the MMDA, NOW accounts exempt from rate ceilings, the 7- to 31-day account, the 91-day account, and the 26-week MMC could be reduced $500 or $1,000 at the time of each interest rate ceiling adjustment. At the next such adjustment, scheduled for April 1, 1983, the minimum denomination on such accounts could be reduced to $1,500. Subsequent periodic reductions would occur until no minimum denomination would be required on any deposit category.

OUTLINE OF POSSIBLE OPTIONS ON WHICH COMMENT IS REQUESTED

A summary of the options, discussed above, of possible Committee action is presented in an outline form below.

Elimination of Interest Rate Ceilings

1. Should the Committee eliminate the current interest rate ceiling structure (TABLE 1)?

   a. Should the Committee eliminate all remaining interest rate ceilings immediately?

   b. Should the Committee adopt the FDIC proposal and remove interest rate ceilings and all other restrictions on deposits with original maturities of 91 days or more, except for an early withdrawal penalty for withdrawals made in the first 90 days of the deposit?

c. Should the Committee adopt the FHLBB suggestion by extending the maximum maturity on money market deposit accounts to 91 days and eliminating all competing categories of short-term deposits and let the current schedule apply otherwise?

d. What other methods of eliminating current ceilings should the Committee consider?

Acceleration of the Current Rate Phaseout Schedule (TABLE 2)

2. Should the Committee accelerate the current phaseout schedule (TABLE 2)?

   a. Should the Committee simply advance each date in TABLE 2 by six months or a year or by some other period?

   b. Should the Committee accelerate the long-term phaseout schedule (i.e. move up deregulation of deposits with original maturities of 1-1/2 years or more) but allow the deregulation schedule for all other time deposits to remain intact (i.e. 91-days to 1 year)?

   c. What other methods of accelerating deregulation should the Committee consider?

Simplification of Interest Rate Ceilings

3. If the Committee does not eliminate or accelerate the phaseout of interest rate ceilings in general, should the Committee make changes to the rate ceiling schedule for any category of time deposits (TABLE 1)?

   a. Should all indexed accounts (middle of TABLE 1 and TABLE 3) become ceiling-free when their base rate is at 9 per cent or below (or at some other base rate) for four consecutive auctions (or for some other period)?

   b. Should indexed accounts have a minimum ceiling that remains at 9 per cent (or some other rate) if the auction rate is at or below a rate of 9 per cent?

   c. Should the elimination of the thrift differential be accelerated from its current statutory elimination on December 31, 1983?

   d. Should the Committee rescind existing rate ceilings on all fixed-ceiling time deposits that are now, or in the future will be, superseded by indexed or ceiling-free accounts? (See footnotes 2 & 3 to TABLE 1)

e. Should existing ceilings on fixed-rate accounts (top of TABLE 1) be eliminated and replaced by appropriate market rate indexing (bottom of TABLE 1), which would then be subject to the phaseout schedule (TABLE 2)?

f. What other options for simplifying ceilings should the Committee consider?

Simplification and Rationalization of Interest Rate Ceilings and Other Characteristics of the 26-week MMC and the 91-day Account

4. If the Committee does not make changes to the rate ceiling schedule for deposits in general (No. 3, above), should it make changes to the 26-week MMC and the 91-day account (TABLE 3)?

   a. Should the Committee remove the interest rate ceilings on the 26-week money market certificate and the 91-day account as it did for the 7- to 31-day account at its last meeting?

   b. Should the 26-week MMC and the 91-day account become ceiling-free when the rate on U.S. Treasury bills is at 9 per cent or below (or at some other rate) for four consecutive auctions (or for some other period)?

   c. Should the 26-week MMC and the 91-day account have a minimum ceiling that remains at 9 per cent (or at some other rate) if the auction rate is below a rate of 9 per cent (or at some other rate)?

   d. Should the Committee eliminate the 7.75 per cent minimum ceiling for the 26-week MMC?

   e. Should the phaseout of the differential on 26-week MMCs, currently scheduled for December 31, 1983, be accelerated to May 1, 1983, to conform to the phaseout date for the differential on the 91-day account?

   f. Should commercial banks be permitted to pay the thrift ceiling rate on maturing 26-week MMCs in order to enable them to compete more effectively for such deposits upon maturity?

   g. Should the Committee rescind the amendment on the 26-week MMC which permits the ceiling to be the higher of the auction average or a 4-week average of the auction rates?

   h. What other options concerning changes to the ceiling rates on these accounts should the Committee consider?

Simplification of Characteristics of Deposit Categories

5. If the Committee does not make changes to the schedule for deregulating rates in general, should it make changes to the primary characteristics of short-term deposits (TABLE 4)?

   a. Should the Committee permit loans to meet the minimum denomination requirements on all accounts OR should it prohibit such loans on all accounts?

   b. Should the Committee establish a schedule for phasing out all minimum denomination requirements (such as reducing the minimum by $500 or $1,000 on each scheduled interest rate phaseout date) OR should it eliminate such requirements immediately?

   c. Should the Committee permit compounding on the 26-week MMC and the 91-day account as is currently permitted on all other interest-bearing accounts?

   d. Should commercial banks be permitted to pay the ceiling rate for thrifts on IRA/Keogh and governmental unit deposits?

   e. What other changes to the characteristics of these accounts should the Committee consider?

The Committee wishes to encourage interested parties to comment on the effect these changes may have on earnings and liquidity. Even if opposed to any changes or in favor of complete deregulation of interest rate ceilings, interested parties should comment on specific changes that they believe should be made if the Committee does decide to accelerate the schedule or to amend the short-term deposit ceiling rate schedules in order to simplify and make their characteristics more consistent.

By order of the Committee, December 22, 1982.

Mark C. Bender

Mark Bender
Acting Executive Secretary