FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8834
May 20, 1980]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

—Comment Invited on Proposals Regarding Premiums and Finder's Fees
—Adoption of Rules Regarding Interest on Deposits

*To All Commercial Banks, Mutual Savings Banks,
and Savings and Loan Associations in the Second Federal Reserve District:*

The newly established Depository Institutions Deregulation Committee (DIDC) has announced the adoption of rules governing the payment of interest by commercial and thrift institutions and has requested comment, by June 16, on proposals regarding premiums and finder's fees for new and existing deposit accounts. Comments on the proposals may be sent to our Consumer Affairs and Bank Regulations Department.

Following is the text of the DIDC's announcement:

The Depository Institutions Deregulation Committee announced that at its first meeting it elected Paul A. Volcker, Chairman of the Federal Reserve Board, as its Chairman. Irvine H. Sprague, Chairman of the Federal Deposit Insurance Corporation, was named Vice Chairman.

The Committee was created by the Depository Institutions Deregulation and Monetary Control Act of 1980, signed on March 31. Title II of that Act transferred to the newly formed Committee the authority to set interest rate ceilings on deposits of commercial banks, mutual savings banks and savings and loan associations. The Committee's assignment under the Act is to provide for the orderly phase-out of interest rate ceilings over a six-year period and eventually to provide depositors with a market rate of return on their savings.

Members of the Committee are the Secretary of the Treasury and the chairmen of the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board and the National Credit Union Administration Board. The Comptroller of the Currency serves as a nonvoting member.

In its first substantive action, the Committee requested comment by June 16 on a proposal to prohibit any premiums or gifts given by an institution upon the opening of a new account or an addition to an existing account. Premiums are now limited to $5 (at wholesale, exclusive of packaging and shipping costs) for deposits of less than $5,000 and to $10 for deposits of $5,000 or more.

In addition, the Committee proposed to limit any finder's fees to third parties to cash payments and to regard any finder's fees as interest to the depositor. Comment was requested on this proposal, also by June 16.

In other actions, the Committee:

1. Adopted a final rule, effective May 6, that permits a depositor to withdraw at any time without penalty all interest earned on a time deposit that was renewed automatically on the same terms as the original deposit. This will bring rules of the FDIC and the Federal Reserve into conformity with those of the Federal Home Loan Bank Board.

2. Adopted a final rule, also effective May 6, authorizing institutions to pay interest on certificates of deposit for up to seven days after the maturity date. At present, the Federal Home Loan Bank Board permits savings and loan associations to pay interest for up to 10 days after a certificate matures (7 days for the 26-week money market certificate). The FDIC and Federal Reserve have no parallel ruling.

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The National Credit Union Administration is expected to take actions similar to the final rules adopted by the Committee.

In other organizational matters, the Committee selected the following members of its permanent staff:

As general counsel, Neal L. Petersen, general counsel of the Federal Reserve Board; as Executive Secretary, Normand R. V. Bernard, Special Assistant to the Federal Reserve Board; and as Policy Director, Edward C. Ettin, Deputy Staff Director in the Office of Staff Director for Monetary and Financial Policy at the Federal Reserve. The permanent offices of the Committee will be at the Federal Reserve Board.

Enclosed—for commercial banks, mutual savings banks, savings and loan associations, and others concerned in this District—is the text of the proposals and final rules referred to in the announcement. Additional copies will be furnished upon request directed to our Circulars Division. Questions on this matter may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

Anthony M. Solomon,
President.