

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8869]
July 9, 1980

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

—Comment Invited on Proposals to Establish Interest Rate Ceilings
on All Interest-Bearing Transaction Accounts

—Final Rule Regarding IRA and Keogh Accounts

—Deferral to December 31, 1980 of Action to Abolish Premiums, Gifts and Finders Fees

—No Action on Proposals to Change the Six-Month Money Market Certificate
or Eliminate Certain Ceiling Interest Rate Differentials in Rhode Island

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

Following is the text of a statement issued by the Depository Institutions Deregulation Committee regarding several actions taken by the Committee, including alternative proposals to establish uniform ceiling rates of interest on all interest-bearing transaction accounts at commercial banks, mutual savings banks, and savings and loan associations, and announcing a final ruling affecting early withdrawals from IRA and Keogh accounts at savings and loan associations:

The Depository Institutions Deregulation Committee requested public comment on a series of possible realignments of interest rate ceilings on interest-bearing transaction accounts—such as NOW (negotiable orders of withdrawal) and ATS (automatic transfer service) accounts at banks and thrift institutions.

At the same time, the Committee announced other actions affecting withdrawals at savings and loan associations from Individual Retirement Accounts (IRAs) and Keogh accounts (in which individuals save for retirement); the effective date for any restrictive actions the Committee might take on the use of premiums, gifts and finders fees in connection with deposit accounts; a congressional suggestion for revision of the six-month Money Market Certificate, and a petition for the elimination in Rhode Island of the differential between the ceiling rates that banks and thrift institutions may pay on certain time and savings accounts.

The Committee made its proposals respecting interest-bearing transaction accounts with the objective of providing competitive equality among depository institutions through parity among the ceiling rates applying to all such accounts at all types of depository institutions.

The Committee asked for comment on these proposals by August 4, 1980, and said that it would consider its proposals, in the light of comment received, at a meeting on September 9. Any action taken would be effective December 31, 1980.

The Committee proposed to consider as interest-bearing transaction accounts those accounts that will be subject to transaction account reserve requirements under the Federal Reserve's Regulation D. The Federal Reserve has proposed to define the following as transaction accounts: negotiable orders of withdrawal (NOW accounts), savings accounts subject to automatic transfer arrangements (ATS accounts), telephone transfers (TTS) and pre-authorized nonnegotiable transfers (PNTS), or accounts which permit payments to third parties by means of an automated teller machine (ATM), remote service unit (RSU) or other electronic device.

The Committee's proposals provide, in the interests of competitive equality among depository institutions, a uniform ceiling rate on all interest-bearing transaction accounts at commercial banks, mutual savings banks and savings and loan associations. Further, in the interests of facilitating the conduct of monetary policy the Committee desires to encourage depositors to differentiate between active and inactive interest-bearing deposits by establishing a ceiling rate that is higher for nontransaction savings accounts than for savings accounts that may be used as transaction accounts.

The Depository Institutions Deregulation and Monetary Control Act of 1980 (which established the Deregulation Committee) authorizes nationwide issuance of NOW accounts effective December 31, 1980 by all depositories except credit unions, and, effective April 1, 1980, the issuance of ATS accounts for individuals by commercial banks and mutual savings banks and the establishment of RSU accounts by Federally insured savings and loan associations for the crediting and debiting of savings.

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The following table shows the current interest rate ceilings on savings accounts and on those accounts the Committee proposes to regard as interest-bearing transaction accounts, and sets forth three alternative optional realignments that might be made in the interests of parity among the various types of accounts and competitive equality among depository institutions. These options are described in detail in the [enclosed] Federal Register notice of these proposals.

**Structure of Interest Rate Ceilings on Interest-Bearing Transaction Accounts and
Passbook Savings Accounts at Federally Insured Depository Institutions and
Three Optional Realignments**

<u>Types of Accounts</u>	<u>Current ceiling</u>	<u>Option 1</u>	<u>Option 2</u>	<u>Option 3</u>
<i>Commercial banks</i>				
Savings	5¼	5¼	5½	5¾
NOW	5*	5	5¼	5½
ATS	5¼	5	5¼	5½
TTS	5¼	5	5¼	5½
PNTS	5¼	5	5¼	5½
<i>Savings and loan associations and mutual savings banks</i>				
Savings	5½	5½	5¾	6
NOW	5*	5	5¼	5½
ATS	5¼	5	5¼	5½
TTS	5½	5	5¼	5½
PNTS	5½	5	5¼	5½
RSU	5½	5	5¼	5½

*In New England, New York, and New Jersey.

The Committee also requested comment on a fourth option that would establish a uniform ceiling rate on interest-bearing transaction accounts above 5½ percent.

The Committee also:

1. Decided effective July 2 to make the rules governing withdrawals from Individual Retirement Accounts (IRAs) and Keogh accounts the same in the case of accounts held at savings and loan associations as for such accounts held at banks. This eliminates a difference in the rules that made funds withdrawn from such retirement accounts at savings and loan associations before maturity after the account holder reaches age 59½ or is disabled subject to penalty for early withdrawal if the funds were withdrawn for any purpose other than distribution (retention for the account owner's use).

2. Decided that any action it might take to restrict or eliminate premiums or gifts given by financial institutions in connection with deposits would not become effective before December 31, 1980.

The Committee proposed on May 6 to abolish premiums or gifts in connection with the opening of new deposit accounts or additions to existing accounts. The Committee has asked for comment through July 16.

The Committee also proposed in May that finders fees be limited to cash payments and be regarded as interest paid to the depositor. Any action taken by the Committee to put this proposal into effect would also not be effective before December 31, 1980.

The Committee's decision means that premiums, gifts and finders fees may continue to be given under present rules at least through December 30, 1980.

The Committee plans, tentatively, to consider its May proposals, in the light of comment received, at a meeting scheduled for September 9.

3. Decided to notify Congressmen Fernand J. St Germain and Jerry M. Patterson that the Committee does not believe it advisable at this time to adopt proposals made by them for changes in the six-month Money Market Certificate that would give the MMC some characteristics of a money market mutual fund share.

4. Decided to take no action at this time on a petition from banks in Rhode Island for the elimination in that State of the differential ceiling rates on time and savings accounts applying to banks and thrift institutions.

Enclosed is a copy of the text of the Committee's proposals regarding interest rate ceilings and a copy of the final rule concerning IRA and Keogh accounts. Comments on the proposals, which should be submitted by August 4, may be sent to our Consumer Affairs and Bank Regulations Department; questions regarding the DIDC's rules may be directed to the Regulations Division of that Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

TITLE 12--BANKS AND BANKING

CHAPTER XII--DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[Docket No. D-0010]

PART 1204--INTEREST ON DEPOSITS

Early Withdrawal from IRA and Keogh Accounts

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has adopted a rule providing that a penalty need not be applied to a withdrawal from an IRA or Keogh account time deposit prior to the maturity of the account, if the owner is disabled or age 59-1/2 or over. The rule applies to all commercial banks, mutual savings banks, and savings and loan institutions subject to the authorities conferred by section 19(j) of the Federal Reserve Act, section 18(g) of the Federal Deposit Insurance Act and section 5B(a) of the Federal Home Loan Bank Act. The rule is consistent with existing rules of the Federal Reserve System ("Federal Reserve") and the Federal Deposit Insurance Corporation ("FDIC"). The rules of the Federal Home Loan Bank Board ("FHLBB") permit exemption from an early withdrawal penalty for IRA and Keogh accounts only if withdrawal is made to effect a distribution of the account. The rule adopted by the Committee conforms the rules of the FHLBB to the existing rules of the Federal Reserve and the FDIC.

EFFECTIVE DATE: July 2, 1980.

FOR FURTHER INFORMATION CONTACT: John R. Hall, Associate General Counsel, Federal Home Loan Bank Board (202/377-6450), Debra Chong, Attorney, Office of the Comptroller of the Currency (202/447-1632), F. Douglas Birdzell, Senior Attorney, Federal Deposit Insurance Corporation (202/389-4324), Anthony F. Cole, Senior Attorney, Federal Reserve Board (202/452-3612), or Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: Regulations applicable to Federally regulated depository institutions generally require that a penalty, in the form of decreased or forfeited earnings, be applied when any withdrawal of funds from a time deposit occurs prior to maturity of the account. Under the rules and regulations of the Federal Reserve and the FDIC, (12 CFR 217.4(d) and 329.4(d)), a member bank or an FDIC-insured bank may pay a time deposit before maturity without penalty, if the deposit represents funds contributed to an Individual Retirement Account or a Keogh (H.R. 10) plan and withdrawal occurs after the individual for

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whose benefit the account is maintained attains age 59-1/2 or is disabled. Under regulations of the FHLBB (12 CFR 526.7(c)), a penalty-free withdrawal of IRA or Keogh time deposit funds is permitted when the depositor attains age 59-1/2 or is disabled only if such withdrawal is made to effect a taxable distribution of funds in the account.

The Committee believes it is appropriate that, with regard to early withdrawal penalties, retirement account owners receive equivalent treatment in all Federally-regulated depository institutions. Further, the Committee believes that any withdrawal from an IRA or Keogh account after the owner is disabled or age 59-1/2 should be eligible for exemption from penalty for early withdrawal, regardless of whether the withdrawal is made to effect a taxable distribution. Therefore, the Committee has determined to adopt a rule consistent with the rule previously adopted by the Federal Reserve and the FDIC. The Committee believes that such a liberal rule encourages retirement savings by providing maximum flexibility for retirement savers.

Because the Committee believes that equal treatment of retirement savers in all types of depository institutions should be achieved as soon as possible, the Committee finds that notice and public procedure with respect to the rule is contrary to the public interest and unnecessary under the provisions of 5 U.S.C. § 553(b); and since publication of the amendment for the time specified in 5 U.S.C. § 553(d) prior to its effective date would delay implementation of the rule, and, for the reasons described above, delay is unnecessary and contrary to the public interest, the Committee has determined that the rule shall become effective as herein set forth.

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 June 2, 1980, the Committee amends Part 1204 (Interest on Deposits) by adding section 107 as follows:

PART 1204--INTEREST ON DEPOSITS

§ 1204.107 Early Withdrawal of IRA and Keogh Accounts

A depository institution subject to the authorities conferred by section 19(j) of the Federal Reserve Act (12 U.S.C. 371b), section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)), or section 5B(a) of the Federal Home Loan Bank Act (12 U.S.C. 1425b(a)) may pay a time deposit or certificate account before maturity without a reduction or forfeiture of earnings if the time deposit or certificate account represents

an Individual Retirement Account or a Keogh (H.R. 10) plan established under 26 U.S.C. §§ 408 or 401, and the individual for whose benefit the account is maintained has attained age 59-1/2 or is disabled (as defined in 26 U.S.C. § 72(m)(7)).

By order of the Committee, June 25, 1980.

(signed) Normand R. V. Bernard

Normand R. V. Bernard
Executive Secretary of the Committee

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