

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 9047
April 2, 1981

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Ceiling Rates for Six-Month Money Market and 2½-Year Small Saver Certificates

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

The Depository Institutions Deregulation Committee (DIDC) has amended its rules to make changes in ceiling rates for six-month Money Market Certificates and Small Saver Certificates effective on the Tuesday following the Treasury's announcement of the rate on Monday night. Accordingly, the rate announced on Monday, April 6, for Money Market Certificates, will become effective on Tuesday, April 7; the rate announced on Monday, April 13, for Small Saver Certificates, will be effective on Tuesday, April 14. This schedule replaces the previous schedule, which called for an additional two-day delay from the date of the announcement to the effective day of the new ceilings, which had been Thursday.

In order to determine the appropriate ceiling rates for these securities, you may call the special recorded telephone numbers established for this purpose—Tel No. 212-791-6800 or 5927. The new information should be available at these numbers by 7:30 p.m. on Mondays. Specific questions regarding this matter may be directed to the Regulations Division of this Bank (Tel. No. 212-791-5914) during normal business hours.

Copies of the text of this rule change and additional materials on two DIDC proposals regarding interest rate ceilings will be sent to you as soon as they are available.

ANTHONY M. SOLOMON,
President.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE PRESS RELEASE

COMPTROLLER OF THE CURRENCY FEDERAL DEPOSIT INSURANCE CORPORATION FEDERAL HOME LOAN BANK BOARD
FEDERAL RESERVE BOARD NATIONAL CREDIT UNION ADMINISTRATION TREASURY DEPARTMENT

For immediate release

March 31, 1981

The Depository Institutions Deregulation Committee, established by Congress to bring about an orderly phase-out of interest rate ceilings on deposits, proposed taking two steps in that direction at its meeting March 26.

The Committee requested comment by May 1 on the two following proposals:

1. To remove the present 12 and 11 3/4 percent cap on the maximum interest rate ceiling that applies to Small Saver Certificates offered by thrift institutions and banks respectively. The Small Saver Certificate is a certificate of deposit with a maturity of 2 1/2 years or more. The rate ceiling on this category would continue to be tied to the 2 1/2 year yield on U.S. Treasury securities.
2. To establish the following schedule for deregulating deposit rate ceilings generally, by eliminating rate ceilings on deposits of certain maturities:

July 1, 1981	-- Deposits with maturities of five years or more;
July 1, 1982	-- Deposits with maturities of four to five years;
July 1, 1983	-- Deposits with maturities of two to four years;
July 1, 1984	-- Deposits with maturities of one to two years;
July 1, 1985	-- Deposits with maturities of six months to one year;
April 1, 1986	-- Elimination of all remaining ceilings (as required by law).

The Committee said it would also consider comment concerning deregulation by means of indexing ceiling rates to market rates according to this schedule.

Subjects on which the Committee would particularly like to receive comment are listed on Pages Three and Six of the attached notice of those proposals.

In another action the Committee amended its rules to make new ceiling rates established for the six-month Money Market Certificate and the Small Saver Certificate

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effective the day following their announcement. At present, there is normally a two-day delay (from announcement on Monday to the effective date on Thursday).

This will work as follows:

The rates announced Monday, March 30, for both the Money Market Certificate and the Small Saver Certificate remained subject to the existing rule and become effective on Thursday, April 2.

The rate announced on Monday, April 6, for the MMC, will become effective Tuesday, April 7, under the new rule.

The rate announced (on the bi-weekly schedule of announcements of SSC rates) for the SSC on Monday, April 13, will be effective on Tuesday, April 14, under the new rule.

All rates subsequently announced for the MMC or the SSC will be effective the day after announcement.

The Committee took this action to link the rates on these deposits more closely to market rates. It said it would reconsider the matter if severe operational problems emerged. The Committee acted after consideration of comment received on proposals, announced last December, for changes in the Committee's rules regarding the effective date of newly announced ceiling rates for the MMC and the SSC. The comment received is summarized in the attached notice of the Committee's action.

The Committee considered but took no action on proposals before it relating to penalty-free early withdrawal of funds from time deposits in the event of the bankruptcy of the depositor, the Committee's rule regarding the phase-out of finders fees and the ceiling rates on regular savings accounts and interest bearing transaction accounts.

The Committee elected Secretary of the Treasury Donald T. Regan to succeed Federal Reserve Board Chairman Paul A. Volcker as Chairman of DIDC. The members of the Committee are the heads of the agencies listed at the top of Page One.

The Committee will announce the date of its next meeting at a later time.

TITLE 12--BANKS AND BANKING

CHAPTER XII--DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[Docket No. D-0016]

PART 1204--INTEREST ON DEPOSITS

Effective Date of Ceiling Rates on MMCs and SSCs

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rules.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has amended its rules to reduce the period between the announcement and the effective date of the ceiling rates of interest payable on the 26-week money market certificate (MMC) and on the 2-1/2 year or more small saver certificate (SSC). Under the revised rules, the ceiling rates of interest payable on MMCs and SSCs will become effective on the day after they are announced. Ceiling rates for such deposits normally are announced on Monday and, thus, normally will be effective on Tuesday rather than on Thursday as under the present rules. This action was taken by the Committee in order to more closely link the ceiling rates of interest payable on MMCs and SSCs with current market rates.

EFFECTIVE DATE: April 7, 1981.

FOR FURTHER INFORMATION CONTACT: F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4261), Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281), Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798), 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: The ceiling rate of interest payable on MMCs is tied to the discount rate (auction average) on the most recently issued 26-week United States Treasury bills. Such bills normally are auctioned on Monday and, under current rules, the ceiling rate of interest based on the discount rate (auction average) is effective on the following Thursday, the day on which the Treasury bills normally are issued. This ceiling rate is effective until the next issuance of 26-week United States Treasury bills. The ceiling rate of interest payable on SSCs is tied to the average 2-1/2 year yield for United States Treasury securities as determined bi-weekly by the United States Treasury.

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Such average yield normally is announced by Treasury on Monday (based on the average 2-1/2 year yield for the five business days ending on the day of announcement) and, under current rules, the ceiling rates based on their average 2-1/2 year yield are effective for a two-week period beginning on the following Thursday.

On December 19, 1980, the Committee issued for public comment proposed rules under which the ceiling rates announced on Monday would be effective for new MMCs or SSCs issued beginning on the following Tuesday or Wednesday rather than on the following Thursday (45 Fed. Reg. 85059 (1980)). Over 400 comments from the public, including depository institutions, individuals, trade associations, and federal instrumentalities, were received by the Committee on the proposal. Comments of a majority of depository institutions and trade associations favored changing the Thursday date to either Tuesday or Wednesday, while other commentators favored retention of the Thursday effective date. Those favoring a change in the effective date cited the potential for decreasing earnings pressures on and smoothing deposit flows of financial institutions as the primary benefits of such a change. Comments in favor of retention of the Thursday date generally viewed the proposal as having potential operational problems and as disadvantageous to depositors.

After consideration of all of the comments on the proposal, the Committee has determined to change the effective date of the ceiling rate of interest on MMCs and SSCs from Thursday to the day after the new ceiling rates are announced. In this regard, the new ceiling rates on MMCs and SSCs normally are announced on Monday and, therefore, such rates will be effective on Tuesday. When a holiday occurs on Monday, the new ceiling rates are announced on Friday. In those instances, the new ceiling rates will become effective on Saturday. In all cases, the ceiling rates will remain in effect from the day after the announcement of the ceiling rate until the end of the day that a new ceiling rate is announced for the particular category of deposit. As in the past, the ceiling rate applicable to outstanding deposits will not change during the life of the deposit. This action is effective for the new ceiling rate for MMCs to be announced on April 6, 1981, and for the ceiling rate to be announced for SSCs on April 13, 1981.

The Committee believes that this action will benefit depository institutions by more closely linking the ceiling rates payable on MMCs and SSCs with current market rates, thereby smoothing deposit flows among depository institutions. In view of the comments received on the proposal, the Committee believes that the change should not present operational difficulties for institutions. However, the Committee noted that if the change presents unanticipated operational difficulties for depository institutions, it might reconsider the amendment at a future date. In order to provide depositors with a return on their funds invested in MMCs and SSCs that is more closely aligned to current market rates as soon as possible, the Committee finds that good cause exists for making this action effective in less than 30 days.

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 April 7, 1981, the Committee amends Part 1204--Interest on Deposits (12 CFR Part 1204) as follows:

1. Section 104 is revised to read as follows:

§ 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 rates set forth below. Rounding any rate to the next higher rate is not permitted and interest may not be compounded during the term of this deposit.

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")

Maximum per cent

Commercial Banks

7.50 per cent or below

7.75

Above 7.50 per cent

Bill Rate plus one-quarter of one per cent

Mutual Savings Banks and Savings and Loan Associations

7.25 per cent or below

7.75

Above 7.25 per cent, but below 8.50 per cent

Bill Rate plus one-half of one per cent

8.50 per cent, but below 8.75 per cent

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8.75 per cent or above

Bill Rate plus one-quarter of one per cent

2. Section 106 is revised to read as follows:

§ 1204.106 -- Time Deposits of Less Than \$100,000 With Maturities of 2-1/2 Years or More.

(a) A commercial bank may pay interest on any nonnegotiable time deposit with a maturity of 2-1/2 years or more at a rate not to exceed the higher of one-quarter of one per cent below the average 2-1/2 year yield for United States Treasury securities as determined and announced by the United States Department of the Treasury immediately prior to the date of deposit, or 9.25 per cent. Such announcement is made by the United States Department of the Treasury every two weeks. The average 2-1/2 year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. The rate paid on any such deposit cannot exceed the ceiling rate in effect on the date of deposit. In no event shall the rate of interest paid exceed 11.75 per cent, except as provided in 12 CFR 217.7(g) and in 12 CFR 329.6(b) (6).

(b) A mutual savings bank or savings and loan association may pay interest on any nonnegotiable time deposit with a maturity of 2-1/2 years or more at a rate not to exceed the higher of the average 2-1/2 year yield for United States Treasury securities as determined and announced by the United States Department of the Treasury immediately prior to the date of deposit, or 9.50 per cent. Such announcement is made by the United States Department of the Treasury every two weeks. The average 2-1/2 year yield will be rounded by the United States Department of the Treasury to the nearest 5 basis points. The rate paid on any such deposit cannot exceed the ceiling rate in effect on the date of deposit. In no event shall the rate of interest paid exceed 12.00 per cent.

By order of the Committee, March 31, 1981.

(Signed) Normand R. V. Bernard

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Executive Secretary of the Board

[SEAL]