FEDERAL RESERVE BANK OF NEW YORK

[Circular No. **9168**
October 22, 1981]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Proposals Regarding New Deregulation Schedule and New Short-Term Deposit Instruments

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

The Depository Institutions Deregulation Committee (DIDC) has invited comment on (a) a new proposed schedule for progressively deregulating time deposits, starting with a new 3½-year (or over) deposit category, and (b) the desirability of authorizing a new short-term deposit instrument that would enable federally insured commercial banks, mutual savings banks, and savings and loan associations to compete more effectively for short-term deposits.

Printed on the following pages is the text of the proposals. Comments on the deregulation schedule should be submitted by November 6, 1981; comments on the short-term deposits should be submitted by November 16, 1981. All comments may be sent to our Consumer Affairs and Bank Regulations Department.

Anthony M. Solomon,
President.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0022]

Time Deposits of Less Than $100,000 With Original Maturities of 3½ Years or More

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee (the "Committee") is considering amending its rules to establish a new category of time deposit that could be offered by federally-insured commercial banks, mutual savings banks, and savings and loan associations. The Committee requests comment on an account that would have the following principal characteristics: (1) Minimum original maturity of 3½ years of more; (2) no interest rate limitation; (3) permitting additional deposits to be made during the first year of the account without extending its maturity; and (4) a minimum denomination of $250. The Committee also requests comments on a schedule that would each year reduce the minimum maturity of this new deposit category by one year, and the creation of two additional new desposit categories to be effective in 1984 and 1985, respectively.

DATE: Comments must be received by November 6, 1981.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed rules to Steven L. Skancke, Executive Secretary, Depository Institutions Deregulation Committee, Room 1054, Department of the Treasury, 15th Street and Pennsylvania Avenue, NW., Washington, D.C. 20220. All material submitted should include the Docket Number D-0022 and will be available for inspection and copying upon request, except as provided in § 1202.5 of the Committee's Rules Regarding Availability of Information (12 CFR 1202.5).

FOR FURTHER INFORMATION CONTACT: Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281); Allan Schott, Attorney-Adviser, Treasury Department (202/566-2914); F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4261); 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 Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96-221; 12 U.S.C. 3501 *et seq.*) ("Act") was enacted to provide for the orderly phaseout and the utimate elimination of the limitations on the maximum rates of interest and dividends that may be paid on deposit accounts by depository institutions. In adopting the Act, Congress determined that rate ceilings have: (1) Discouraged savings; (2) created inequities for depositors; (3) impeded competition among depository institutions; and (4) not provided an even flow of funds for home mortgage lending. The Congress also found that all depositors, particularly those with modest savings, are entitled to receive a market rate-of-return as soon as it is economically feasible for institutions to pay such rates.

Under the Act, authority to administer deposit rate ceilings has been given to the Committee. The Act also provides that the Committee can phase out rate ceilings by *any* or all of the following methods:

(1) Gradually increase ceilings applicable to *all* account categories (however when increasing rates on *all* existing accounts, the DIDC may not exceed market rates);

(2) Complete elimination of limitations applicable to particular account categories;

(3) Creation of new account categories subject to limits or with limits set at current market rates;

(4) By any combination of the above methods; and

(5) By any other method.

In accordance with its responsiblities, the Committee is requesting public comment on a proposal to meet the objectives of the Act. The Committee proposes to create a new category of time deposit that would not be subject to an interest rate ceiling. The new category (1) would require a minimum maturity of 3½ years or more, (2) would permit additional deposits to be made during the first year of the life of the deposit without extending the maturity date of the account, (3) could be issued in negotiable or nonnegotiable form, (4) could be discounted, (5) would be issued in a minimum denomination of $250, and (6) would be subject to an early withdrawal penalty of at least nine months' forfeiture of interest. In addition, all other provisions of the Committee's rules and the rules of the other agencies would continue to apply.

The Committee and the agencies have taken actions in the past that have been regarded as the establishment of *new* categories of deposit accounts. These accounts include 26-week money market time deposits (MMCs), small saver certificates (SSCs), and the 3-year time deposit available only to IRA and Keogh Plan depositors. These accounts have been regarded as new accounts by virtue of particular characteristics such as maturity, method of determination of ceiling rates, and availability limited to certain classes of depositors. The Committee believes that the proposed 3½ year or more time deposit would be a new category of deposit account for purposes of both the Act and Pub. L. 94-200.[1]

The Committee expects that the new 3½-year time deposits could be offered by depository institutions on a fixed or variable rate basis. For variable rate time deposits, it is expected that the method of determining how the rate would fluctuate would be readily ascertainable and disclosed in writing at the opening of the deposit contract. For example, the rate could be pegged to the rate based on the yield for a particular category of U.S. Treasury securities or any other market based or independently determined yield.

The Committee also requests comment on a proposed schedule under which each year the mininum maturity of the new deposit category would be reduced by one year. Under the schedule, the maturity range and method of determining the rate ceiling of the small saver certificate category of time deposit also would be modified in 1982 and 1983. In addition, the schedule would establish two new time deposit categories without a differential in 1984 and 1985, respectively. This schedule would be as follows:

APPLICABLE RATE CEILING FOR

Original maturity	Commercial banks	MSBs and S&Ls
Effective Feb. 1, 1982:		
(1) 3½ years or more.	No limit	No limit.
(2) 2½ years to less than 3½ years.	Avg. yield for 2½ year Treasury securities less ¼ point.	Avg. yield for 2½ year Treasury securities.
Effective Feb. 1, 1983:		
(1) 2½ years or more.	No limit	No limit.
(2) 1½ years to less than 2½ years.	Avg. yield for 1½ year Treasury securities less ¼ point.	Avg. yield for 1½ year Treasury securities.
Effective Feb. 1, 1984:		
(1) 1½ years or more.	No limit	No limit.
(2) 6 months to 1½ years (new deposit category).	26-week Bill rate	26-week Bill rate.
Effective Feb. 1, 1985:		
(1) 6 months or more.	No limit	No limit.
(2) 14 days to 6 months (new deposit category).	13-week Bill rate	13-week Bill rate.
Effective Feb. 1, 1986:		
All time deposits.	No limit	No limit.

[1] Pub. L. 94-200 provides that the differential between thrift institution and commercial bank interest rate ceilings on any category of account in existence on December 10, 1975, cannot be reduced or eliminated without Congressional approval.

The Committee has considered the potential impact on small entities of the proposal to establish a new 3½-year time deposit category and the proposed schedule, as required by the Regulatory Flexibility Act (5 U.S.C. 601 *et seq.*). In this regard, the Committee's action would not impose any new regulatory burden, or increase any existing or impose any new reporting or recordkeeping requirements. Consistent with the Committee's statutory mandate to eliminate deposit interest rate ceilings, this proposal would enable depository institutions to pay interest on certain time deposits with maturities of 3½ years or more without regard to interest rate limitations. Thus, small entities that are depositors generally could benefit from the Committee's proposal, since they would be able to earn higher rates of interest on their time deposits. Small entities that are depository institutions could have increased costs as a result of this action, because it is likely that they will be paying higher interest rates on certain time deposits; however, their competitive position *vis-a-vis* nondepository institution competitors should be enhanced by their ability to offer higher rates on time deposits. The proposed new deposit category could be offered by all federally insured commercial banks, mutual savings banks and savings and loan associations.

In particular, the Committee requests comments on the following specific aspects of the proposal.

(1) *Maturity.* The appropriateness of a minimum maturity period of 3½ years or more.

Should the minimum maturity on the proposed deposit category be reduced each year by one year?

(2) *Additional deposits during first year.* It is appropriate to allow additions to such accounts during the first year without requiring an extension of the maturity?

Should this be a required feature or should it be optional for depository institutions?

(3) *Minimum denomination.* Should the proposed instrument have a minimum denomination of $250, or some other amount?

(4) *Early withdrawal penalty.* Should the proposed 3½ year instrument be subject to a minimum early withdrawal penalty of nine month's forfeiture of interest or the current six month penalty?

As alternatives for this account, should the minimum early withdrawal penalty be:

(1) Three months' loss of interest for each year or part thereof of the original maturity of the time deposit (a 3½ year time deposit would have a twelve month early withdrawal penalty); or

(2) Three months' loss of interest for each year or part thereof remaining to maturity of the time deposit?

(5) *Other features.* The Committee requests comment on whether the proposed deposit category should allow negotiable certificates of deposits, whether issuance of such deposits on a discount basis should be permitted, or whether any other or different characteristics should apply to such accounts.

(6) *New account categories to be introduced in 1984 and 1985.* Should the proposed two new account categories have characteristics similar to the proposed 3½ year category?

(7) *Other comments.* The Committee also requests comments on any other aspect of the proposal that is relevant, including, but not limited to, the effect of the proposed new deposit category on the competitive position and safety and soundness of depository institutions and the effect of the proposal on small entities.

The Committee has determined to shorten the length of the comment period normally provided to the public so that it can consider this issue at its meeting tentatively scheduled for December 16, 1981. Accordingly, all comments must be received by November 6, 1981.

PART 1204—INTEREST ON DEPOSITS

Pursuant to its authority under section 203(a) of the Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96–221; 12 U.S.C. 3502(a)), the Committee proposes to amend 12 CFR Part 1204:

1. Effective February 1, 1982 by adding a new § 1204.119 that would read as follows:

§ 1204.119 Time deposits of less than $100,000 with original maturities of 3½ years or more.

(a) A commercial bank, mutual savings bank, or savings and loan association may pay interest without limit on any time deposit of $250 or more with an original maturity of 3½ years or more.

(b) Any time deposit issued pursuant to this section may provide by contract that additional deposits may be made to the account for a period of one year from the date that is is established without extending the original maturity date of the account. Deposits made to the account more than one year after the date that it is established shall extend the maturity of the entire account for a period at least equal to the original term of the account, or such additional deposit shall be regarded as a separate account.

(c) Where a time deposit issued pursuant to this section is paid before maturity, a depositor shall forfeit an amount at least equal to nine months of interest earned, or that could have been earned, on the amount withdrawn at the nominal (simple interest) rate paid on the deposit, regardless of the length of time the funds withdrawn have remained on deposit.

(d) A depository institution may issue time deposits pursuant to this section with any of the following characteristics:

(1) Such time deposits may be represented by a negotiable or nonnegotiable instrument, or may be in book-entry form; or

(2) Such time deposits may be issued on a discount basis.

(e) Effective February 1, 1983, this section is amended by striking the term "3½ years" wherever it appears and inserting in its place the term "2½ years".

(f) Effective February 1, 1984, this section is amended by striking the term "2½ years" wherever it appears and inserting in its place the term "1½ years".

(g) Effective February 1, 1985, this section is amended by striking the term "1½ years" wherever it appears and inserting in its place "6 months".

(h) Effective February 1, 1986, this section is amended by striking the term "6 months" wherever it appears and inserting in its place "14 days".

2. Effective February 1, 1982, § 1204.106 would be amended by adding a new paragraph (c) as follows:

§ 1204.106 Time deposit of less than $100,000 with maturities of 2½ years to 4 years.

* * * * *

(c)(1) Effective February 1, 1982, this section is amended by striking the term "2½ years to less than 4 years" wherever it appears and inserting in its place "2½ years to less than 3½ years".

(2) Effective February 1, 1983, this section is amended by striking the term "2½ years to less than 3½ years" wherever it appears and inserting in its place "1½ years to less than 2½ years".

3. Effective February 1, 1984, by adding a new § 1204.120 that would read as follows:

§ 1204.120 Time deposits of less than $100,000 with original maturities of 6 months to 1½ years.

Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any time deposit of $250 or more with an original maturity 6 months or more but less than 1½ years at a rate not to exceed the 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. Rounding rates to the next higher rate is not permitted. Time deposits issued under this section shall also be subject to paragraphs (b), (c), and (d) of § 1204.119. This section shall expire on February 1, 1985.

4. Effective February 1, 1985, by adding a new § 1204.121 that would read as follows:

§ 1204.121 Time deposits of less than $100,000 with original maturities of less than 6 months.

Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any time deposit of $250 or more with an original maturity of 14 days or more but less than 6 months at a rate not to exceed the rate established and announced (auction average on a discount basis) for U.S. Treasury bills with maturities of 13 weeks at the auction held immediately prior to the date of deposit. Rounding rates to the next higher rate is not permitted. Time deposits issued under this section shall also be subject to paragraph (d) of § 1204.119.

By order of the Committee, September 25, 1981.

Stevens L. Skancke,
Executive Secretary.

[FR Doc. 81-28998 10-5-81; 8:45 am]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0023]

Short-Term Time Deposit Instruments

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: The Depository Institutions Deregulation Committee (the "Committee") is considering amending its rules to establish a new short-term deposit instrument that would enable federally insured commercial banks, mutual savings banks, and savings and loan associations to compete more effectively for short-term funds. The Committee requests comments on the desirability of authorizing a new short-term deposit instrument and, in particular, comments on the following instruments: (1) a $5,000 minimum denomination transactions account with no interest rate ceiling; (2) a $10,000 minimum denomination 91-day account with a 14-day required notice for withdrawal thereafter, and a floating interest rate tied to the 13-week Treasury bill discount rate; and (3) a $25,000 minimum denomination account with no interest rate ceiling and a 1-day notice requirement. The Committee also requires comments or ideas on any other short-term instrument or combination of instruments which respondents believe would be desirable.

DATE: Comments must be received by November 16, 1981.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed rules to Steven L. Skancke, Executive Secretary, Depository Institutions Deregulation Committee, Room 1054, Department of the Treasury, 15th Street and Pennsylvania Avenue NW., Washington, D.C. 20220. All material submitted should include the Docket Number D-0023 and will be available for inspection and copying upon request, except as provided in § 1202.5 of the Committee's rules regarding Availability of Information (12 CFR 1202.5).

FOR FURTHER INFORMATION CONTACT: David Ansell, Attorney, Office of the Comptroller of the Currency (202/447-1880); F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4324); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446); Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281); Randall J. Miller, Acting Director, Office of Policy Analysis, National Credit Union Administration (202/357-1090); or Allan Schott, Attorney-Adviser, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. 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 any one of 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.

At its June 25, 1981 meeting, the Committee considered the issue of short-term time deposit instruments and decided to request public comments on the desirability of authorizing a new deposit instrument having characteristics similar to money market mutual funds (MMFs). 44 FR 36712 (July 15, 1981). The Committee did not put forth a specific proposal at that time. Over 400 comments were received by the Committee on this issue. (An analysis of the comments is contained in the DIDC staff paper "Proposals to Change the Method of Calculating the Ceiling Rate on MMCs and Consideration of Creation of a New Short-Term Deposit Instrument", September 16, 1981 which is available upon request from the Executive Secretary of the Committee). Approximately half of the respondents favored creation of a new short-term instrument and half were opposed. Those against the authorization of a new short-term instrument, generally thrift institutions, argued that the higher costs associated with a new deposit instrument and the potential shifts from savings accounts would add to their current earnings problem.

At its September 22, 1981 meeting, the Committee decided to solicit comments on several new deposit alternatives so that the public would have an opportunity to present their views on the instruments under consideration. In light of the previous comment period on the same issue and the desire to consider this issue at the December 16, 1981 meeting, the Committee believes that a period of 30 days is sufficient time for public comment on the current proposal.

The Committee has considered the potential effect on small entities of the proposal to establish a new short-term instrument, 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 requirement. Consistent with the Committee's statutory mandate to eliminate deposit interest rate ceilings, this proposal would enable all depository institutions to compete more effectively in the marketplace for short-term funds. Depositors generally should benefit from the Committee's proposal, since the new instrument would provide them a market rate of return. If low-yielding deposits shift into the new account, depository institutions might have increased costs as a result of this action. However, their competitive position *vis-a-vis* nondepository competitiors would be enhanced by their ability to offer a 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 costs associated with the shifting of low-yielding accounts.

In structuring a regulation authorizing a new short-term instrument, the relevant variables for the Committee to consider are yield, minimum denomination, maturity, and transactions characteristics. At one extreme, the creation of an account with no interest rate ceiling, no minimum denomination, no minimum maturity requirement and a transactions capability, would provide depository institutions with an instrument which would be competitiver with MMF shares, and would thereby help stem deposit outflows and indeed might induce deposit inflows. Such an account could also result in substantial shifting of deposit funds from low-yield deposit accounts, resulting in increased costs to depository institutions. The introduction of another interest-bearing transaction account could also have an adverse effect on the conduct of monetary policy.

Creation of an account with a high minimum denomination and/or a longer term-to-maturity, however, might minimize shifting, but would be less competitive with MMFs and therefore less effective in attracting new deposits. In creating any short-term deposit category, major factors that must be taken into account include potential operational problems, the effect on earnings of depository institutions and the competitive viability of the instrument.

Because of the need to consider all of the variables discussed above, the Committee requests comments concerning desirable short-term instrument characteristics. In particular, the Committee requests comments on the following aspects of a new short-term instrument:

(a) What should be the minimum denomination requirement on the short-term instrument?

(b) Should the account be ceilingless or indexed to market rates? Should the ceiling be equal to the market rate? Should the institution be allowed to offer a floating rate?

(c) If indexed, should the regulation include a thrift-commercial bank interest rate ceiling differential?

(d) Should a minimum maturity or notice requirement be imposed on the account?

(e) Should third-party transfers be permitted? [Federal Reserve Board Regulation D (12 CFR Part 204) stipulates that the account would be subject to higher reserve requirements than for other time deposits if the institution permits more than three transfers per month to another account or a third party.] Should transfers be limited by regulation to some minimum number per month?

(f) Should the eligibility for this account be restricted in any way, for example, to individuals only?

(g) What is the preferred combination of the above features?

(h) Is the authorization of a short-term instrument with characteristics similar to MMF shares desirable at this time? What would be the impact of introducing such an instrument on the earnings of depository institutions?

(i) Would an alternative to a short-term instrument, such as lowering the minimum denomination on MMCs, be preferable to introducing a new short-term instrument at this time?

As an example of how the minimum denomination, maturity and transaction features of a short-term account might be combined, the Committee has developed three specific proposals. Comments are requested on the desirability of each of these instruments, including the operational feasibility, the cost implications, and the expected benefits to be provided by the instruments. These comments should address the proposals, both individually and in relation to one another, as well as any other proposed instruments.

(1) *A $5,000 minimum denomination transaction account with no interest rate ceiling.*

If the balance on this account falls below $5,000 at any time during a monthly period, the maximum rate payable on this account would be reduced for the period to the rate in effect for NOW accounts (currently 5¼%). Any withdrawals, including transfers to third parties, could be made only in amounts of $500 or more. It should be noted that if a depository institution would elect to permit more than three transfers per month to another account or to a third party, the instrument would be subject to transaction account reserve requirements as stipulated by Federal Reserve Regulation D.

In addition to addressing the desirability of the above account, respondents are requested to address the following questions:

(a) What would be the effect of this account on deposit flows (both on the expected inflows and internal shifts of funds) and on the earnings of depository institutions?

(b) Should the minimum withdrawal amount be smaller or larger?

(c) Should there be an interest rate ceiling on this account? If so, should the ceiling rate be indexed to a market rate such as the yield on 30-day Treasury bills? Should institutions be given the option of using a moving average of past T-bill rates as an interest rate ceiling? Should a thrift-commercial bank ceiling differential be imposed?

(d) Should the number of third-party transfers be limited? If so, how many transfers per month should be permitted?

(2) *A $10,000 minimum denomination time deposit with an initial maturity of 91-days and a 14-day notice period thereafter, and an interest rate ceiling tied to the 13-week Treasury bill discount rate.*

It would be the institution's option to offer this instrument with the interest rate fixed for periods of 91 days or on a floating rate basis (*e.g.*, set daily or weekly). Depositors would be required to keep their funds on deposit for at least 91 days. Depositors could maintain funds in the account after the initial maturity of 91 days, and the withdrawal of those funds would be subject to a 14-day notice requirement. Under this option the institution could offer a fixed or floating rate on the account for the initial 91 days, and a floating rate thereafter. No additions to this account or partial withdrawals from principal would be permitted, and the account would not be permitted to function as a transaction account.

In addition to commenting on the desirability of authorizing such an account, respondents are requested to address the following issues:

(a) Would this account serve to lessen the outflow of deposits at depository institutions? Would there be substantial shifting from other accounts within the same institution? How effective would the new account be in attracting new funds? What would be the effect on earnings?

(b) Should depository institutions be given the option of using a moving average of past T-bill rates as an interest rate ceiling? Should there be a differential between the thrift and commercial bank ceilings? Should the account have a ceiling rate at all?

(c) Should additions or partial withdrawals be permitted after the initial 91-day maturity? If partial withdrawals are permitted, should the balance in the account be permitted to fall below $10,000? Should there be a minimum withdrawal amount, such as $500? Would it be preferable to structure the account so that additional deposits after the first $10,000 would reset the 91-day initial maturity?

(e) Should the 14-day notice period be required or should depository institutions be permitted to establish alternative maturity dates at least 14 days apart?

(3) *A $25,000 minimum denomination account with no interest rate ceiling, a minimum 1-day notice requirement, and no additions or withdrawals.*

Comments are requested on the general desirability of this account as well as on the following specific issues:

(a) What is the estimated effect of this account on deposit flows (both in terms of internal shifts and expected inflows of deposits) and on earnings?

(b) Would a notice requirement of a different length be preferred: seven days? fourteen days? more than fourteen days? Should the imposition of the notice requirement be at the institution's option, similar to the current rules on passbook accounts?

(c) Should there be an interest rate ceiling? If so, should there be a bank-thrift differential? Should depository institutions be given the option of using a moving average of past market rates as a ceiling?

In addition to addressing the specific short-term instrument proposals, above the Committee requests comments on whether or not a new short-term deposit instrument should be introduced at this time. Respondents are requested to specify their relative preferences for the above instruments, and what modifications, if any, would be desirable.

By order of the Committee, October 9, 1981.

Stevens L. Skancke,
Executive Secretary.

[FR Doc. 81-29837 Filed 10-14-81; 8:45 am]