FEDERAL RESERVE BANK
OF NEW YORK

Circular No. **9196**
November 25, 1981

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Reaffirmation of Ruling Regarding New IRA/Keogh Accounts

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

Following is the text of a statement issued November 20 by the Depository Institutions Deregulation Committee:

The Depository Institutions Deregulation Committee announced today that it has voted to retain the new IRA/Keogh account that it adopted at its September 22 meeting. It has a minimum maturity of 1-1/2 years and no regulated interest rate ceiling. In addition, however, the Committee has decided not to permit waiver of early withdrawal penalties for the transfer of existing IRA/Keogh accounts to the new IRA/Keogh deposit instrument.

In taking this action, the Committee indicated that certain member agencies will carefully monitor the rates offered on IRA/Keogh accounts. These regulatory agencies are particularly concerned that competition for IRA/Keogh accounts not endanger the safety and soundness of individual depository institutions and will take appropriate actions if necessary.

These decisions were made through a written ballot vote of the Committee in response to a request by Federal Home Loan Bank Board Chairman Richard T. Pratt that the Committee place a ceiling, indexed to the yield on Treasury securities, on the new account. Mr. Pratt also had requested the DIDC to consider requiring the early withdrawal penalties for transfers within the institution to the new account from existing IRA/Keogh accounts prior to their maturity.

The DIDC vote reaffirms that the new IRA/Keogh account category will have (1) a maturity of 1-1/2 years or more, (2) no interest rate restrictions, (3) no federally required minimum denomination, (4) the normal early withdrawal penalty of six months interest, and (5) at the option of the institutions, additions may be permitted without extending the original maturity of the deposit.

Although elimination of the penalty-free conversion option may deny some current IRA/Keogh account holders a higher return on funds previously invested until those deposits mature, this action will not inhibit the main objectives of the new IRA/Keogh account—namely, that of encouraging savings and allowing depository institutions to compete more effectively for the new retirement savings forthcoming January 1, 1982.

Questions regarding this matter may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.