FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 9274
April 8, 1982]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Payment of Premiums on Multiple Accounts

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 adopted as final an earlier temporary amendment to its rules that prohibited depository institutions from soliciting multiple accounts from depositors for the purpose of giving more than one premium at a time to such depositors.

Printed on the reverse side is the text of the amendment, which has been reprinted from the *Federal Register* (Docket No. D-0018). Questions regarding the DIDC's action may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

(Over)

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Federal Reserve Bank of St. Louis

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0018]

Interest on Deposits, Premiums, Finders Fees, and the Payment of Interest

AGENCY: Depository Institutions Deregulation Committee

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") is adopting in final form a temporary amendment to its rule concerning the use of premiums by depository institutions (12 CFR 1204.109). This temporary amendment of the premium rule was published for comment on February 26, 1981 (46 FR 15131); it prohibits depository institutions from soliciting the opening of multiple accounts from a depositor in order to provide for more than one premium at a time to such depositor. The purpose of the rule is to eliminate the circumvention of the objectives of the premium rule by depository institutions that advertise premium programs in which lump sum deposits brought in by a depositor would be broken up by the institution and placed in multiple accounts for the purpose of enabling the institution to give a premium for each account.

EFFECTIVE DATE: April 15, 1982.

FOR FURTHER INFORMATION CONTACT: Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446), David Ansell, Attorney, Office of the Comptroller of the Currency (202/447-1880), F. Douglas Birdzell, Counsel, Federal Deposit Insurance Corporation (202/389-4261), Veryl V. Miles, Attorney, Board of Governors of the Federal Reserve System (202/452-3611), or Allan Schott, Attorney-Advisor, Treasury Department (202/566-6798).

SUPPLEMENTARY INFORMATION: The Committee's rule concerning the use of premiums (12 CFR 1204.109), effective December 31, 1980, provides that premiums, whether in the form of merchandise, credit or cash, will not be regarded as a payment of interest if: (1) The premium is given to a depositor only when a new account is opened, an existing account is renewed, or funds are added to an existing account; (2) no more than two premiums *per account* are given in any 12-month period; and (3) the value of the premium, or, if merchandise is given, its total cost to the institution, is no more than $10 for deposits of less than $5,000 or $20 for deposits of $5,000 or more. After the rule was adopted, an increasing number of depository institutions advertised programs in which a lump sum brought in by a depositor could be broken up by the institution and placed in multiple accounts for the purpose of enabling the institution to give a premium for each account. These programs made it possible for the depository institutions to provide more premiums than would otherwise be permitted if the funds had been placed in one account. These programs had the capacity for undermining and circumventing the objectives of the Committee in adopting the rule.

In its efforts to curtail the practice of opening multiple accounts for a depositor in order to receive multiple premiums and to clarify its original intent in adopting the premium rule, the Committee adopted a temporary amendment, effective February 26, 1981, prohibiting depository institutions from soliciting or promoting deposits from customers on the basis that the funds would be divided into more than one account by the institution for the purpose of providing more than two premiums per deposit within a 12-month period. The Committee also asked for public comments by April 1, 1981, on the temporary amendment and on alternative methods to deal with this problem on a permanent basis.

The Committee received 215 comments: 92 commentators were in favor of the amendment and 29 were in opposition to the amendment. The remaining 94 commentators did not express definitive positions in favor of the amendment or in opposition to the amendment. Their comments were included in the specific comments considered by the Committee regarding alternative methods to achieve compliance with the premium rule and general comments made regarding premiums.

Many of the commentators in favor of the temporary amendment also expressed the opinion that it would not be sufficient in curtailing the opening of multiple accounts by those depositors who are aware that multiple premiums can be obtained by opening multiple accounts. Others in favor of the amendment indicated that such an amendment was not objectionable, so long as it did not prohibit depository institutions from giving multiple premiums if the depositor independently decides to open multiple accounts.

With respect to the request for alternative methods of preventing the circumvention of premiums rules, 73 institutions suggested that premiums be banned completely. Another alternative recommended by 53 institutions was that premiums be permitted on a per depositor/per household basis instead of a per account basis. In addition to the recommendation that premiums be permitted on a per depositor/per household basis, 41 institutions pointed out that this alternative would be too costly and too difficult to monitor and administer. Several of these institutions also expressed the opinion that this alternative would create depositor disloyalty, prompting depositors to deposit their funds at several different depository institutions in order to obtain additional premiums. It was also suggested that premiums be limited to branch openings, bank openings, anniversaries, mergers and consolidations; 20 institutions recommended this alternative.

Based upon the comments received and the Committee's experience with the temporary rule, the Committee concluded that the final adoption of the rule would be the most effective means of curtailing the circumvention of the premium rule and would enable depository institutions to provide premiums to customers in the manner the Committee intended. With respect to the alternatives suggested by the commentators to prevent further abuses of the objectives of the premium rule, the Committee believes that making the temporary rule permanent would be more effective in advancing its objectives. This is based on the view that adoption of a per depositor/per household rule would be both a financial and administrative burden for depository institutions to implement and would not directly address the immediate problem of soliciting the opening of multiple accounts by depository institutions.

PART 1204—INTEREST ON DEPOSIT

Pursuant to its authority under the Depository Institutions Deregulation Act (12 U.S.C. 3501 *et seq.*), the Committee amends Part 1204 (Interest on Deposits) by adding the following sentence to § 1204.109(a):

§1204.109 Premiums not considered payment of interest.

(a) * * * A depository institution is not permitted directly or indirectly to solicit or promote deposits from customers on the basis that the funds will be divided into more than one account by the institution for the purpose of providing more than two premiums per deposit within a 12-month period.

* * * * *

By order of the Committee.

Steven Skancke,

Executive Secretary.

March 9, 1982.

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