FEDERAL RESERVE BANK OF NEW YORK

[Circular No. 9429
December 29, 1982]

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

Final Rules and Proposed Rules

To All Depository Institutions, and Others Concerned, in the Second Federal Reserve District:

The Depository Institutions Deregulation Committee (DIDC) has released three final rules and two proposed rules resulting from actions taken at its December 6 meeting. The following is quoted from the text of a statement issued by the DIDC describing those actions:

- *Now Accounts*. The DIDC authorized a new NOW account effective January 5, 1983, with the same features as the money market deposit account (MMDA) effective December 14, 1982, except that it will permit unlimited transactions. The new account will be made available only to those depositors eligible under Federal law to have NOW accounts (individuals, certain nonprofit corporations, and governmental units). Under the Federal Reserve's Regulation D, NOW accounts are generally subject to reserve requirements of 12 percent.
- *Transaction Feature for the MMDA*. The DIDC also voted to request public comment on authorizing depository institutions to offer to business organizations an MMDA with unlimited transactions features. The public comment period will last for 45 days after the proposal is published in the *Federal Register*.
- *Telephone Transfers on the MMDA*. The DIDC voted to have telephone transfers counted among the six transfers permitted each month on the MMDA. The November 15, 1982 decision to allow unlimited telephone transfers on the MMDA was thus reversed.
- *The 7 - to 31-Day Account*. The DIDC voted to remove the ceiling on the 7 - to 31-day account effective January 5, 1983. The ceiling on this account has been suspended since September 8, 1982, because the 91-day Treasury bill rate, to which the account is indexed, has been below 9 percent. If the auction average on the 91-day Treasury bill (discount basis) rises above 9 percent in any weekly auction between now and January 5, there will be a ceiling and a differential on this account until January 5, 1983.
- *$2,500 Minimum Denominations*. The DIDC voted to reduce to $2,500 the minimum denominations of the $10,000 six-month money market certificate; the $7,500 91-day account; and the $20,000 7 - to 31-day account. This action will be effective January 5, 1983.
- *Public Comment*. In addition to the transaction features on the MMDA, the DIDC voted to seek public comment on the following issues: changing a number of features of the 91-day account and the 6-month money market certificate to make the regulations on these accounts more consistent; several options for accelerating the schedule to remove the deposit rate ceilings on existing accounts; a schedule to reduce the $2,500 minimum denominations on the short-term accounts to zero over the next three years; and a proposal to rescind the ceilings on fixed-rate account categories when their maturities are greater than the minimum maturity on the Committee's deregulation schedule. The public comment period will last for 45 days after the proposals are published in the *Federal Register*.

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- *Next Meeting*. The next meeting will be on Tuesday, March 1, 1983, at 3:00 p.m. in the Cash Room in the Main Treasury Building at 15th and Pennsylvania Avenue, N.W., Washington, D.C.

(OVER)

Enclosed is the text of two proposed DIDC rulings requesting comments on (1) whether the Committee should accelerate the deregulation of interest rate ceilings on time deposits and/or simplify other regulations on existing time deposit categories, and (2) whether the DIDC should permit the money market deposit account (MMDA) to be offered to businesses with an unlimited transactions feature. Comments on these proposals should be submitted by February 1, 1983, and may be sent to our Consumer Affairs and Bank Regulations Department.

Also enclosed — for depository institutions — is the text of the final rules issued by the DIDC, which has been reprinted from the *Federal Register* of December 16, 1982. Single copies of these rules will be furnished to others upon request directed to the Circulars Division of this Bank (Tel. No. 212-791-5216).

Anthony M. Solomon,
President.

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

[12 CFR Part 1204]

(Docket No. D-0031)

Deregulation of Deposit Rate Ceilings

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: As a result of the passage of the Garn-St Germain Depository Institutions Act of 1982, the Depository Institutions Deregulation Committee ("Committee") is requesting public comment on whether it should accelerate the deregulation of interest rate ceilings on deposits and should simplify other regulations on existing deposit categories. Specifically, the Committee requests comment on whether it should: (1) remove all interest rate ceilings immediately OR deregulate accounts with maturities of 91 days or more, except for a minimum early withdrawal penalty OR eliminate all existing time deposit categories with maturities of less than 91 days and extend the maximum maturity on the new Money Market Deposit Account (12 C.F.R. § 1204.122) to 91 days; (2) accelerate its current schedule for phasing out interest rate ceilings; (3) simplify the current rate ceiling schedules; (4) simplify interest rate ceilings and other characteristics on the 26-week money market certificate and the 91-day time deposit to make them more consistent; and (5) simplify and rationalize other features of account categories, such as minimum denomination and compounding of interest, to make them more consistent.

DATES: Comments must be received by February 1, 1983.

ADDRESS: Interested parties are invited to submit written data, views, or arguments regarding the proposal to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1058, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number D-0031. Such material will be made available for inspection and copying upon request except as provided in the Committee's Rules Regarding Availability of Information (12 CFR § 1202.5).

FOR FURTHER INFORMATION CONTACT: Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447-1880); F. Douglas Birdzell, Counsel, and Joseph A. DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389-4147); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446); John Harry Jorgenson, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3778); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566-8737).

[Enc. Cir. No. 9429]

List of Subjects In 12 CFR Part 1204: Banks, banking.

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of P.L. No. 96-221; 12 U.S.C. §§ 3501 et seq.) ("DIDA") 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 DIDA, the Committee is authorized to phase out interest rate ceilings by any one of a number of methods, including the elimination of interest rate limitations applicable to particular categories of accounts, the creation of new account categories not subject to interest rate limitations, or with interest rate ceilings set at market rates of interest, or any combination of the above.

The Garn-St Germain Depository Institutions Act of 1982, Pub. L. 97-320 ("Garn-St Germain Act") amended the DIDA and required the Committee to authorize the new Money Market Deposit Account ("MMDA"). After taking public comment, the Committee on November 15, 1982, did create such an account to enable institutions to compete with money market mutual funds, effective December 14, 1982. (47 Fed. Reg. 53710 November 29, 1982) Section 326 of the Garn-St Germain Act requires that the interest rate differential in favor of thrifts be eliminated on or before January 1, 1984.

In March 1982, the Committee adopted a deregulation schedule that phases out interest rate ceilings beginning with longer-term time deposits. With the deregulation schedule in place, the focus of the Committee turned to short-term deposit instruments. Prevailing high interest rates had caused a continued erosion of low-cost deposits at banks and thrifts, as depositors sought market rates elsewhere, particularly through money market mutual funds ("MMFs"). The Committee addressed this problem by authorizing, effective May 1, 1982, a 91-day time deposit with a $7,500 minimum denomination indexed to the 91-day Treasury bill rate, and establishing effective September 1, 1982, a 7- to 31-day deposit account with a $20,000 minimum denomination, also indexed to the 91-day Treasury bill rate. On December 6, 1982, the Committee further deregulated short-term deposits by exempting from interest rate ceilings NOW accounts with average balances of $2,500 that are subject to certain of the restrictions that apply to the MMDA to be effective January 5, 1983. The Committee also reduced to $2,500 the minimum denomination on the 7- to 31-day, the 91-day, and the 26-week MMC categories of deposits, effective January 5, 1983, and eliminated the indexed ceiling on the 7- to 31-day account, effective on that date.

Because of the effect the statutory and regulatory changes summarized above may have on the mix of short-term and long-term deposits of depository institutions, the Committee requests comments on several proposals pertaining to existing interest rate ceilings and account characteristics. The Committee wishes to encourage interested parties to comment on the effect that these changes may have on earnings and liquidity.

Even if opposed to any changes or in favor of complete deregulation of interest rate ceilings, interested parties are requested to comment on changes that should be made if the Committee does decide to accelerate the schedule or to amend the short-term deposit ceiling rate schedules in order to simplify their characteristics and make them more consistent.

Current Ceiling Rate Structure (see TABLE 1)

Under the current interest rate ceiling structure for deposits at federally insured commercial banks, savings and loan associations, and mutual savings banks, most of the interest rate ceilings on traditional, fixed-rate time deposits are superseded as a practical matter by account categories with indexed rates or with no rate ceiling. Also, the MMDA has no interest rate ceiling, and the 7- to 31-day account, effective January 5, 1983, will also have no interest rate ceiling. Deposit categories with maturities of 91 days, 6 months and 2-1/2 to less than 3-1/2 years are available, but such accounts are subject to rate ceilings tied to an index. Other categories with maturities between 31 days and 3-1/2 years are subject to the fixed-rate ceiling schedule. With the exception of the 1-1/2 year IRA/Keogh deposit category (which has a limited purpose), depository institutions cannot offer ceiling-free deposits with maturities of between 31 days and 3-1/2 years.

TABLE 1

CURRENT TIME DEPOSIT CEILING RATE STRUCTURE[1]

Maturity of Account	Commercial Banks	S&Ls and MSBs
Fixed Ceilings		
14 to 89 days[2]	5-1/4	n.a.
90-day to 1 year[2]	5-3/4	6
1 to 2-1/2 years	6	6-1/2
2-1/2 to 4 years[3]	6-1/2	6-3/4
4 to 6 years[3]	7-1/4	7-1/2
6 to 8 years[3]	7-1/2	7-3/4
8 years and over[3]	7-3/4	8
Indexed or Ceiling-Free		
1 to 31-day MMDA	No ceiling	No ceiling
7- to 31-day account[4]	No ceiling	No ceiling
91-day account[5]	Indexed	Indexed
6-month MMCD[5]	Indexed; ceiling rate does not decline below 7.75 percent	Indexed; ceiling rate does not decline below 7.75 percent
18-month IRA/Keogh Account	No ceiling	No ceiling
2-1/2-year to less than 3-1/2-year[6]	Indexed; ceiling rate does not decline below 9.25 percent	Indexed; ceiling rate does not decline below 9.50 percent
3-1/2-year or more[7]	No ceiling	No ceiling

1. Does not describe all details of current ceiling rates.
2. Partially superseded by indexed accounts.
3. Completely superseded by indexed or ceilingless accounts.
4. Ceiling removed effective January 5, 1983.
5. See TABLE 3 for full detail of the index rate schedule for these accounts.
6. Indexed to average yield for Treasury securities with comparable remaining maturity. See 12 C.F.R. § 1204.106. Effective April 1, 1983, this category becomes "1-1/2 year to less than 2-1/2 years."
7. These accounts have characteristics that distinguish them from fixed ceiling time deposits. See 12 C.F.R. § 1204.119. Effective April 1, 1983, this category becomes "2-1/2 years or more."

Current Phaseout Schedule (see TABLE 2)

The phaseout schedule adopted by the Committee in March of 1982 established a new deposit category with a maturity of 3-1/2 years or more and no interest rate ceiling. Institutions were free to offer the deposit in any denomination but had to at least offer it in a $500 denomination. Under the schedule, the maturity of the instrument will be reduced annually by one year until March 31, 1986, at which time it will have the minimum maturity for time deposits (currently 14 days).

The gap between short-term and long-term ceiling-free deposits will be narrowed somewhat on April 1, 1983, when institutions will be able to offer ceiling-free deposits with maturities of 2-1/2 years or more. However, a 31-day to 2-1/2 year gap would remain, restricting depositors and institutions alike in their selection of ceiling-free accounts to those with very short, or with still relatively long, maturities. Since rate ceilings were initially intended to reduce the risks to institutions of offering short-term interest bearing deposits, and since, in any event, the existence of indexed rate ceilings in the near-term ceiling structure may induce institutions to shorten their liability structure unduly, the Committee believes it is appropriate to consider removing existing interest rate ceilings on longer-term deposits (or accelerating their removal) to allow institutions to offer a range of deposit instruments distinguished primarily by a negotiated rate and maturity. This is especially true since the short-term, ceiling-free accounts may be attractive enough to draw significant funds from longer-term indexed accounts. The flexibility of the management of depository institutions would also be increased by such an action.

TABLE 2

CURRENT INTEREST RATE CEILING DEREGULATION SCHEDULE
FOR INDEXED TIME DEPOSITS

Original Maturity	Commercial Bank Ceiling	Thrift Ceiling
Effective April 1, 1983		
2-1/2 years or more1/	Ceiling eliminated	Ceiling eliminated
1-1/2 years to less than 2-1/2 years2/	Thrift rate less .25%.	Average yield for 1-1/2 year Treasury securities.
Effective April 1, 1984		
1-1/2 years or more3/	Ceiling eliminated	Ceiling eliminated
Effective April 1, 1985		
6 months or more4/	Ceiling eliminated	Ceiling eliminated
Effective March 31, 1986		
14 days or more5/	Ceiling eliminated	Ceiling eliminated

1. See 12 C.F.R. § 1204.119(d).
2. See 12 C.F.R. § 1204.106(c)(2).
3. See 12 C.F.R. § 1204.119(e).
4. See 12 C.F.R. § 1204.119(f).
5. See 12 C.F.R. § 1204.119(g).

COMMENTS ON ELIMINATION OR ACCELERATION OF CEILINGS

Elimination of Rate Ceilings

The Committee requests comment on whether to eliminate the current rate ceilings (TABLE 1) completely at its next meeting. The Committee is particularly interested in comments on the projected effect such an action would have on institutional earnings and deposit flows. While such an action would effectively eliminate the need for the various existing deposit categories, such as the 91-day, and the 26-week MMC and the short-term fixed-ceiling deposit categories, it would not actually eliminate these accounts. Institutions would probably want to retain some of these categories because they are currently popular with consumers. Eventually, however, the accounts will probably become obsolete like the longer-term fixed-ceiling time deposits shown in the top panel of TABLE 1. Further, while elimination of the rate ceiling structure would automatically remove any interest rate differentials on deposit categories in favor of thrift institutions, the elimination of all differentials must occur on or before January 1, 1984, under section 326 of the Garn-St Germain Act. Thus, if the Committee eliminated all existing ceilings at its next meeting, and assuming a delayed effective date, the elimination of the thrift differential would be accelerated by no more than nine months.

An alternative to the removal of the current rate ceiling structure was suggested to the Committee by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC suggests that the Committee completely deregulate all time deposits with original maturities of 91 days or more by removing all interest rate ceilings and other restrictions (except for an early withdrawal penalty) on such time deposits. For such time deposits, if funds are withdrawn within the first 90 days of the deposit, a minimum early withdrawal penalty, requiring the forfeiture of one-month's interest (not to exceed the interest earned), would be imposed. This penalty would be necessary so that these totally deregulated time deposits can not be structured to provide instant liquidity. If withdrawal is permitted after the first 90 days, institutions would be permitted, but not required by regulation, to impose an early withdrawal penalty. The remaining rate structure on time deposits with maturities of 31 to 90 days would be phased out on March 31, 1986. Alternatively, the Federal Home Loan Bank Board suggested that all categories of time deposits with original maturities of 91 days or less be eliminated and that the maximum maturity of the money market deposit account be extended to 91 days from its current maximum of 31 days. The balance of the ceiling rate structure would be phased out as currently scheduled (TABLE 2).

Acceleration of Rate Schedule

As mentioned above, the Garn-St Germain Act accelerated the total elimination of the thrift differential from March 31, 1986, to on or before January 1, 1984 and directed the Committee to create the ceiling-free MMDA. Consistent with this Congressional acceleration of the phaseout of limitations on the payment of interest, the Committee also requests comment on accelerating its current schedule (TABLE 2) for phasing out ceilings in general in the event the Committee finds that total deregulation or the removal of ceilings is inappropriate at this time. For example, the entire schedule could be advanced one year so that elimination of all ceilings occurs on April 1, 1985, instead of March 31, 1986, or the one-year interval in TABLE 2 could be reduced to six months. The Committee could also accelerate the removal of ceilings on longer-term deposits while keeping the short-term portion of the schedule intact. For example, it could accelerate deregulation of ceilings on deposits with maturities of 1-1/2 years or more to April 1, 1983, from April 1, 1984, but leave deregulation of rate ceilings on deposits with maturities of 6 months to 1-1/2 years until the currently scheduled date of April 1, 1985.

COMMENTS ON SIMPLIFICATION

In addition to requesting comment on deregulation in general, the Committee also requests comments on how it could simplify current ceiling rate schedules and current account characteristics. The Committee also requests comment on whether it should rescind ceilings on fixed-rate deposits that have been, or will be, superseded by indexed or ceiling-free account categories (TABLE 1). The Committee also requests comment on whether it should promptly extend indexing to all categories of fixed-rate deposits that have not yet been superseded by indexed ceilings or by removal of ceilings (TABLE 1). Ceilings on these newly indexed accounts would be phased out in accordance with the schedule on TABLE 2.

Short-Term Deposit Rate Schedule (TABLE 3)

The current ceiling rate structure for the 26-week money market certificate is presented in the top portion of TABLE 3. The schedule is rather complex in that two alternative index rates are used--the most recent auction rate on 6-month Treasury bills or an average of the bill rates at the four most recent auctions--and the formula for determining the ceiling rate changes at five different levels of the index rate.

TABLE 3

CURRENT CEILING SCHEDULES FOR SHORT-TERM DEPOSIT ACCOUNTS

Index Rate1/	Commercial Bank Ceiling	Thrift Ceiling	Differential
26-week money market certificate			
greater than 8.75 percent	index rate + .25	index rate + .25	0
8.5 to 8.75	index rate + .25	9.0	0 to .25
7.5 to 8.5	index rate + .25	index rate + .50	.25
7.25 to 7.5	7.75	index rate + .50	.25 to 0
less than 7.25	7.75	7.75	0
91-day account			
greater than 9.0 percent2/	index rate - .25	index rate	.25
9.0 percent or below3/	index rate	index rate	0
7- to 31-day account4/	no ceiling	no ceiling	---

1. The index rate for the 26-week MMC is the higher of the most recent auction rate (auction average, discount basis) on 6-month Treasury bills or an average of the four most recent auction rates. The index rate on the 91-day account is the most recent auction rate (auction average, discount basis) on 3-month Treasury bills.
2. The differential is scheduled to be removed on May 1, 1983. At that time, all institutions will be able to pay the index rate at all interest rate levels.
3. The index must be 9.0 percent or below for four consecutive auctions.
4. At its December 6, 1982 meeting, the Committee determined that, effective January 5, 1983, the 7-to 31-day account would become ceiling free. This action was taken because the ceiling (indexed to the 91-day Treasury bill rate) became meaningless with the authorization of the new money market deposit account, which is ceiling free.

The methods of establishing the ceilings on the newer 91-day account (authorized beginning in May 1982) is less complex than the MMC, with the formula for determining the ceiling rate at various index rate levels changing only once, namely, when the 3-month Treasury bill rate reaches 9.0 percent (middle portion of TABLE 3). In addition to different ceiling rate structures, the thrift differential is applied inconsistently to these accounts. It is added to the index rate in the case of the 26-week MMC but is deducted from the index in the case of the 91-day deposit. Moreover, in the case of the 26-week MMC the differential is removed if the index rate goes above 8.75 percent and is removed on the 91-day account when the index rate falls below 9 per cent. However, the differential on the 91-day account is scheduled to be eliminated on May 1, 1983, so conforming this feature on these two accounts solely for the purpose of consistency may be unnecessary.

The different methods of calculating the ceilings on the MMC and the 91-day instrument have resulted in a confusing, and in some instances an inconsistent, situation. Therefore, the Committee requests comment on whether and how this schedule should be revised.

Simplification of Other Account Characteristics (TABLE 4)

Even if the Committee determines to make no changes to the short-term rate ceiling schedule, other characteristics of the short-term deposit categories could be made more consistent in order to simplify the current account structure. Some of the differences in the short-term deposit accounts are presented in TABLE 4.

TABLE 4

SELECTED CHARACTERISTICS OF SHORT-TERM DEPOSIT ACCOUNTS

Characteristic	26-week MMC	91-day account	7- to 31-day account
Minimum denomination	$2,500[1]	$2,500[1]	$2,500[1]
Loophole loans	permitted	prohibited	prohibited
Index rate	6-month bill rate or 4-week average of bill rates	3-month bill rate	N.A.
Relation between index rate and ceiling rate	presented in table 1	presented in table 1	N.A.
Minimum ceiling	7.75%	none	none
Compounding	prohibited[2]	prohibited[3]	unrestricted
Differential	when index rate is between 7.25 and 8.75%[4]	when index rate is above 9.0%[5]	N.A.
Differential on IRA/Keogh accounts and deposits of governmental units	Banks may pay the thrift rate for these deposits	Differential applies to these deposits	N.A.
Scheduled elimination of differential	Dec. 31, 1983[6]	May 1, 1983	---
Scheduled elimination of ceiling	April 1, 1985	March 31, 1986	---

1. Effective January 5, 1982.
2. Although compounding is prohibited, a saver effectively will receive semiannual compounding if the original deposit plus interest is reinvested in another MMC at maturity.
3. Although compounding is prohibited, a saver effectively will receive quarterly compounding if the original deposit plus interest is reinvested in another 91-day certificate at maturity.
4. The full 25 basis point differential is in effect only when the index rate is between 7.5 and 8.5 percent.
5. Scheduled to be eliminated May 1, 1983.
6. Prior to the passage of the Garn-St Germain Depository Institutions Act, this differential was scheduled to be eliminated on April 1, 1985.

In view of these complexities, the Committee requests comment on whether changes should be made to the existing regulations authorizing these accounts in order to make the regulations less cumbersome and more uniform. The Committee is particularly interested in comments on (1) the relation between the index rate and the ceiling rate, (2) the thrift ceiling rate differential, (3) loophole loans, (4) the use of the four-week average method of calculating the MMC ceiling, and (5) the frequency of compounding that is permitted.

The Committee also requests comment on whether it should phase out minimum denomination requirements. For example, combining the phaseout of the minimum denomination on the MMDA and other short-term accounts with the Committee's current rate deregulation schedule would have the effect of phasing out passbook and NOW account ceiling rates as well as the minimum denomination on NOW accounts exempt from rate ceilings. Ceilings on savings accounts and on NOW accounts not subject to a minimum denomination requirement are not eliminated until March 31, 1986 under the Committee's current phaseout schedule. As the minimum denomination of indexed or ceiling-free, short-term time deposits is reduced under a phaseout schedule, the ceiling rate on savings and NOW accounts would become less binding, and more depositors would become eligible for the higher rate. For example, the $2,500 minimum denomination on the MMDA, NOW accounts exempt from rate ceilings, the 7- to 31-day account, the 91-day account, and the 26-week MMC could be reduced $500 or $1,000 at the time of each interest rate ceiling adjustment. At the next such adjustment, scheduled for April 1, 1983, the minimum denomination on such accounts could be reduced to $1,500. Subsequent periodic reductions would occur until no minimum denomination would be required on any deposit category.

OUTLINE OF POSSIBLE OPTIONS ON WHICH COMMENT IS REQUESTED

A summary of the options, discussed above, of possible Committee action is presented in an outline form below.

Elimination of Interest Rate Ceilings

1. Should the Committee eliminate the current interest rate ceiling structure (TABLE 1)?

   a. Should the Committee eliminate all remaining interest rate ceilings immediately?

   b. Should the Committee adopt the FDIC proposal and remove interest rate ceilings and all other restrictions on deposits with original maturities of 91 days or more, except for an early withdrawal penalty for withdrawals made in the first 90 days of the deposit?

c. Should the Committee adopt the FHLBB suggestion by extending the maximum maturity on money market deposit accounts to 91 days and eliminating all competing categories of short-term deposits and let the current schedule apply otherwise?

d. What other methods of eliminating current ceilings should the Committee consider?

Acceleration of the Current Rate Phaseout Schedule (TABLE 2)

2. Should the Committee accelerate the current phaseout schedule (TABLE 2)?

a. Should the Committee simply advance each date in TABLE 2 by six months or a year or by some other period?

b. Should the Committee accelerate the long-term phaseout schedule (i.e. move up deregulation of deposits with original maturities of 1-1/2 years or more) but allow the deregulation schedule for all other time deposits to remain intact (i.e. 91-days to 1 year)?

c. What other methods of accelerating deregulation should the Committee consider?

Simplification of Interest Rate Ceilings

3. If the Committee does not eliminate or accelerate the phaseout of interest rate ceilings in general, should the Committee make changes to the rate ceiling schedule for any category of time deposits (TABLE 1)?

a. Should all indexed accounts (middle of TABLE 1 and TABLE 3) become ceiling-free when their base rate is at 9 per cent or below (or at some other base rate) for four consecutive auctions (or for some other period)?

b. Should indexed accounts have a minimum ceiling that remains at 9 per cent (or some other rate) if the auction rate is at or below a rate of 9 per cent?

c. Should the elimination of the thrift differential be accelerated from its current statutory elimination on December 31, 1983?

d. Should the Committee rescind existing rate ceilings on all fixed-ceiling time deposits that are now, or in the future will be, superseded by indexed or ceiling-free accounts? (See footnotes 2 & 3 to TABLE 1)

e. Should existing ceilings on fixed-rate accounts (top of TABLE 1) be eliminated and replaced by appropriate market rate indexing (bottom of TABLE 1), which would then be subject to the phaseout schedule (TABLE 2)?

f. What other options for simplifying ceilings should the Committee consider?

Simplification and Rationalization of Interest Rate Ceilings and Other Characteristics of the 26-week MMC and the 91-day Account

4. If the Committee does not make changes to the rate ceiling schedule for deposits in general (No. 3, above), should it make changes to the 26-week MMC and the 91-day account (TABLE 3)?

   a. Should the Committee remove the interest rate ceilings on the 26-week money market certificate and the 91-day account as it did for the 7- to 31-day account at its last meeting?

   b. Should the 26-week MMC and the 91-day account become ceiling-free when the rate on U.S. Treasury bills is at 9 per cent or below (or at some other rate) for four consecutive auctions (or for some other period)?

   c. Should the 26-week MMC and the 91-day account have a minimum ceiling that remains at 9 per cent (or at some other rate) if the auction rate is below a rate of 9 per cent (or at some other rate)?

   d. Should the Committee eliminate the 7.75 per cent minimum ceiling for the 26-week MMC?

   e. Should the phaseout of the differential on 26-week MMCs, currently scheduled for December 31, 1983, be accelerated to May 1, 1983, to conform to the phaseout date for the differential on the 91-day account?

   f. Should commercial banks be permitted to pay the thrift ceiling rate on maturing 26-week MMCs in order to enable them to compete more effectively for such deposits upon maturity?

   g. Should the Committee rescind the amendment on the 26-week MMC which permits the ceiling to be the higher of the auction average or a 4-week average of the auction rates?

   h. What other options concerning changes to the ceiling rates on these accounts should the Committee consider?

Simplification of Characteristics of Deposit Categories

5. If the Committee does not make changes to the schedule for deregulating rates in general, should it make changes to the primary characteristics of short-term deposits (TABLE 4)?

   a. Should the Committee permit loans to meet the minimum denomination requirements on all accounts OR should it prohibit such loans on all accounts?

   b. Should the Committee establish a schedule for phasing out all minimum denomination requirements (such as reducing the minimum by $500 or $1,000 on each scheduled interest rate phaseout date) OR should it eliminate such requirements immediately?

   c. Should the Committee permit compounding on the 26-week MMC and the 91-day account as is currently permitted on all other interest-bearing accounts?

   d. Should commercial banks be permitted to pay the ceiling rate for thrifts on IRA/Keogh and governmental unit deposits?

   e. What other changes to the characteristics of these accounts should the Committee consider?

The Committee wishes to encourage interested parties to comment on the effect these changes may have on earnings and liquidity. Even if opposed to any changes or in favor of complete deregulation of interest rate ceilings, interested parties should comment on specific changes that they believe should be made if the Committee does decide to accelerate the schedule or to amend the short-term deposit ceiling rate schedules in order to simplify and make their characteristics more consistent.

By order of the Committee, December 22, 1982.

Mark C. Bender

Mark Bender
Acting Executive Secretary

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. 0030]

Money Market Deposit Account With Unlimited Transfers for Those Not Eligible To Maintain NOW Accounts

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Proposed rulemaking.

SUMMARY: The Committee is requesting comment on an amendment to the Money Market Deposit Account authorized by the Committee, effective December 14, 1982, at 12 CFR § 1204.122, that would remove the restrictions on the number of transfers of funds for those accounts held by depositors that are not eligible to maintain NOW accounts.

DATE: Comments must be received by February 1, 1983.

ADDRESS: Interested parties are invited to submit written data, views, or arguments concerning the proposed amendment to Gordon Eastburn, Acting Executive Secretary, Depository Institutions Deregulation Committee, Room 1058, Department of the Treasury, 15th Street and Pennsylvania Avenue, N.W., Washington, D.C. 20220. All material submitted should include the Docket Number 0030 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: Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447–1880); Joseph DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389–4147); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377–6446); Robert G. Ballen, Attorney, Board of Governors of the Federal Reserve System (202/452–3265); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566–8737).

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 ("DIDA") (Title II of Pub. L. 96–221, 12 U.S.C. 3501 *et seq.*) established the Committee 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. Section 327 of the Garn-St Germain Depository Institutions Act of 1982 requires the Committee to authorize a new insured deposit account that "shall be directly equivalent to and competitive with money market funds."

The Committee established this new account, the Money Market Deposit Account ("MMDA"), effective December 14, 1982 (12 CFR 1204.122). The MMDA is an insured deposit account with the following principal characteristics: (1) An initial balance and average balance requirement of no less than $2,500; (2) no minimum maturity; (3) no interest rate ceiling on deposits satisfying the initial and average balance requirements; and (4) a maximum of six preauthorized, automatic or third party transfers per month, of which no more than three can be checks. Any depositor is eligible for the MMDA account.

The Committee subsequently, pursuant to its authority under the DIDA, established a new rule for the payment of interest on NOW accounts that have a minimum initial and average balance of $2,500. A depository institution may pay any rate of interest on such accounts if it also meets certain conditions that apply to the MMDA (12 CFR 1204.108(b)). NOW accounts generally are available only to individuals, certain nonprofit organizations operated primarily for religious, philanthropic, charitable, educational, or other similar purposes and governmnental units (12 U.S.C. 1832(a)(2).

The Committee requests comment on a proposed modification to the MMDA that would permit commercial banks, mutual savings banks, and savings and loan associations to offer the MMDA to depositors that are not eligible to maintain NOW accounts with no restriction as to the number of transfers of funds from the account. In this regard, the General Counsel to the Committee has concluded that the Committee may modify the MMDA to provide for unlimited transfers for all categories of depositors given that Congress did not restrict the Committee's authority to add other characteristics that would make the account "directly equivalent to and competitive with money market mutual funds" and provided that the account be available to all customers. The Committee is particularly interested in comments on the impact of this proposed modification to the MMDA account on: (1) The flow of funds into and out of, and between accounts within, institutions; (2) the earnings of institutions; and (3) the funding of institutions in light of the differing degree of regulation on accounts with different maturities.

The Committee has considered the potential effect on small entities of the proposal to modify the MMDA, as required by the Regulatory Flexibility Act (5 U.S.C. 603 *et seq.*). In this regard, the Committee's action, in and of itself, would not impose any new reporting or recordkeeping requirements. Consistent with the Committee's statutory mandate to eliminate deposit interest rate ceiling, this proposal would enable all depository institutions to compete more effectively in the marketplace for short-term funds. Depositors that are not eligible to maintain NOW accounts generally should benefit from the Committee's proposal, since the new instrument would provide them with another investment alternative that pays a market rate of return. If low-yielding deposits shift into the new account, depository institutions might experience increased costs as a result of this action. However, their competitive position vis-a-vis nondepository competitors would be enhanced by their ability to offer a potentially more attractive competitive short-term instrument at market rates. The new funds attracted (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.

List of Subjects in 12 CFR Part 1204

Banks, banking.

By order of the Committee, December 14, 1982.

Mark Bender,

Acting Executive Secretary.

[FR Doc. 82–34270 Filed 12–15–82; 8:45 am]

BILLING CODE 4810-25-M

DEPOSITORY INSTITUTIONS DEREGULATION COMMITTEE

12 CFR Part 1204

[Docket No. D-0026]

Money Market Deposit Account

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") authorized the Money Market Deposit Account ("MMDA") effective December 14, 1982. See 47 FR 53710 (November 29, 1982). As originally authorized, the Committee restricted the MMDA to a maximum of six preauthorized, automatic or other third-party transfers per month. The Committee also determined at that time to permit unlimited telephone transfers from the MMDA to another account of the same depositor at the same depository institution. At its December 6, 1982 meeting, the Committee reconsidered this question and decided that, in order to reduce the potential for the MMDA to be a transaction account, telephone transfers from the MMDA to another account of the same depositor at the same depository institution will be counted in determining compliance with the limit of six transfers per month.

In a separate action, the Committee amended the definition of "month," for purposes of determining compliance with the transaction limitations, the minimum average balance requirements and the interest rate guarantee limitations. The new definition provides that a "month" may be (at the depository institution's option) a calendar month or statement cycle; with a statement cycle normally being 28 to 31 days, but occasionally being as long as 35 days. The Committee took this action because a number of depository institutions indicated that they had statement cycles that occasionally exceeded the 31-day maximum of the Committee's previous rule.

EFFECTIVE DATE: December 14, 1982.

FOR FURTHER INFORMATION CONTACT: Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447-1880); F. Douglas Birdzell, Counsel, and Joseph A. DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389-4147); 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); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566-8737).

SUPPLEMENTARY INFORMATION: Section 327 of the Garn-St Germain Depository Institutions Act of 1982, Pub. L. No. 97-320, directed the Committee to establish a new account (now designated the MMDA) effective December 14, 1982. On October 19, 1982, the Committee published a request for comments regarding characteristics of the MMDA (47 FR 45630). That request noted that, in the staff's view, a telephone transfer from the MMDA to another account of the same depositor at the same depository institution should be considered a preauthorized or automatic transfer for purposes of any numerical restriction on the number of preauthorized or automatic transfers from the MMDA. Many of the comments received by the Committee expressed disagreement with this staff position.

At its November 15, 1982 meeting, the Committee adopted the MMDA regulation effective December 14, 1982, which establishes a limit of six preauthorized or automatic transfers of funds from an MMDA per month no more than three of which may be by check or draft drawn by the depositor. However, the Committee determined that, for purposes of this numerical limitation, a telephone transfer from the MMDA to another account of the same depositor at the same institution would not be considered a preauthorized or automatic transfer. In its publication of the MMDA regulations, the Committee noted that it would reconsider this issue at its next meeting (47 FR 53715).

At its December 6, 1982 meeting, the Committee reconsidered the telephone transfer issue in the context of two decisions made at that time. The first was the Committee's determination, effective January 5, 1983, to establish a new rule for the payment of interest on NOW accounts with a minimum balance of $2500. A depository institution may pay any rate of interest on such accounts that also meet certain conditions that apply to MMDAs. NOW accounts permit unlimited transactions (including unlimited telephone transfers), and eligibility is limited by statute to individuals, certain nonprofit organizations and governmental entities. The second relevant decision was the determination to request comments on amending the MMDA regulation to allow depository institutions to offer an unlimited transactions version of the MMDA to those customers (primarily for-profit corporations) that are not eligible to have NOW accounts. The Committee noted that allowing unlimited telephone transfers from the MMDA to other accounts of the same depositor at the same depository institution made it possible to utilize the MMDA much like a transaction account. This potential use for MMDA funds made more problematic the Federal Reserve Board's definition and use of monetary aggregates. The Committee also noted the Federal Reserve Board's recent decision to impose transaction account reserves on MMDAs where a depository institution did not count a telephone transfer as a preauthorized or automatic transfer for purposes of the six transfers per month limitation (*See* 47 FR 55207 (December 8, 1982)).

Given the above summarized facts and decisions, the Committee determined that a telephone transfer from the MMDA to another account of the same depositor at the same depository institution will be considered a preauthorized or automatic transfer for purposes of the MMDA regulation's limit of six transfers per month.

In so doing, the Committee noted that telephone transfers from the MMDA effecting payment to third parties continue to be subject to the limit of six transfers per month. However, the Committee also noted that withdrawals made by telephone from the MMDA and paid to the depositor are not subject to the limitation on preauthorized or automatic transfers. In this regard, unlimited withdrawals are permitted where the depository institution sends a check to its MMDA customer in response to a telephonic instruction from that customer.

At its November 15, 1982 meeting, the Committee defined the term "month" as either (at the depository institution's option) a calendar month or statement cycle of at least four weeks, but not longer than 31 days. This definition applied for purposes of determining compliance requirements stated in monthly terms, *i.e.,* the six-transaction limitations, the minimum average balance requirements, and the interest rate guarantee limitations. A number of institutions brought to the Committee's attention the fact that the 31-day maximum creates occasional difficulties for depository institutions that utilize statement cycles keyed to working days rather than calendar days. For example, if an institution utilized a statement cycle that ends on the fourth working day of each month, the statement cycle covering the August 1982 period would have been 33 days long; if the statement cycle ended on the first Tuesday of each month, in August 1982, the statement cycle would have been 35 days long. Although these "longer" statement cycles occur infrequently, such as two or three times a year, following the rule would cause institutions to be in technical violation of the rule or create unnecessary operational burdens on depository institutions.

In response to this problem, the Committee, in a separate action, made a technical amendment to the MMDA regulation by defining a "month" to be either a calendar month or a statement cycle, with a statement cycle normally being 28–31 days, but occasionally being as long as 35 days. This action would provide depository institutions with maximum flexibility in designing MMDAs within their existing operational structures or with minimal adjustments. A depository institution, at its option, may use either a calendar month or statement cycle, provided it does so consistently.

As discussed above, the Committee requested and received public comments on whether telephone transfers from the MMDA to other accounts of the same customer should be considered automatic or preauthorized transfers for purposes of the Committee's MMDA regulations. In addition, in its November 29, 1982 publication of its MMDA regulations, the Committee advised that the telephone transfer issue would be reconsidered at its next meeting. With respect to the new definition of a month, it is noted that this is a technical amendment providing greater flexibility to depository institutions and, as such, relieves a restriction. Because the MMDA regulations have a statutorily mandated effective date of December 14, 1982, the Committee's action must be effective on that date. In light of the foregoing, good cause exists for not following the prior notice, opportunity for comment and deferred effective date provisions of 5 U.S.C. § 553. In view of the Committee's findings, sections 603 and 604 of the Regulatory Flexibility Act (5 U.S.C. 603 and 604) are not applicable. Furthermore, because of the nature of this action, the Committee finds that good cause exists under section 1201.6(e) of the Committee's regulations for making this action effective less than 30 days from the date of publication in the **Federal Register.**

List of Subjects in 12 CFR Part 1204

Banks, banking.

PART 1204—[AMENDED]

Pursuant to its authority under Title II of Pub. L. No. 96–221 (94 Stat. 142; 12 U.S.C. 3501 *et seq.*) to prescribe rules governing the payment of interest and dividends on deposits and accounts of federally insured commercial banks, savings and loan associations, and mutual savings banks, and pursuant to the authority granted by Section 327 of the Garn-St Germain Depository Institutions Act of 1982, Pub. L. No. 97–320 (to be codified at 12 U.S.C. 3503), the Committee amends Part 1204 (Interest on Deposits) by revising paragraphs (b) and (e)(1) of § 1204.122, effective December 14, 1982, to read as follows:

§ 1204.122 Money Market Deposit Account.

* * * * *

(b) The average balance for this account may be calculated on the basis of the average daily balance over any computation period selected by an institution, which is not longer than one month. (For purposes of this paragraph and paragraphs (c) and (e) of this section, a "month" shall mean, at a depository institution's option, either a calendar month or a statement cycle. A statement cycle is normally 28 to 31 days, but may occasionally be as long as 35 days.)

* * * * *

(e)(1) Depository institutions are not required to limit the number of transfers of funds from this account to another account of the same depositor when made by mail, messenger, automated teller machine or in person. Depository institutions are not required to limit the number of withdrawals (*i.e.,* payments directly to the depositor) from this account when made by mail, telephone (via check mailed to the depositor), messenger, automated teller machine or in person. Depository institutions must restrict all preauthorized (including automatic) transfers of funds from this account to a maximum of six per month. Three of such transfers may be by check, draft or similar device drawn by the depositor to third parties. Telephone transfers to third parties or to another account of the same depositor are regarded as preauthorized transfers. There is no required minimum denomination for the transfers allowed by this section.

* * * * *

By order of the Committee, December 14, 1982.

Mark Bender,

Acting Executive Secretary.

[FR Doc. 82–34268 Filed 12–15–82; 8:45 am]

BILLING CODE 4810–25–M

12 CFR Part 1204

[Docket No. D–0028]

NOW Accounts of $2,500 or More

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has established a new rule for the payment of interest on NOW accounts with a minimum initial and average balance requirement of $2,500. A depository institution may pay any rate of interest on such accounts if it meets the following conditions that also apply to the Money Market Deposit Account (12 CFR 1204.122) ("MMDA"): (1) An institution must reserve the right to require seven days' notice prior to withdrawal; (2) compliance with the average balance requirement may be computed over a period no longer than one month; (3) the existing NOW account ceiling rate (5¼ percent) applies to accounts that do not meet the average balance requirement; (4) an interest rate may not be guaranteed for longer than one month; and (5) loans are not permitted to meet the $2,500 initial or average balance requirement. These rules apply to accounts that are authorized under 12 U.S.C. 1832(a). Accordingly, such accounts are available *only* to individuals, nonprofit organizations operated primarily for religious, philanthropic, charitable, educational, fraternal and other similar purposes, and to governmental units. This action was taken by the Committee in connection with its responsibility under the Depository Institutions Deregulation Act to phase out deposit interest rate ceilings as rapidly as economic conditions warrant.

EFFECTIVE DATE: January 5, 1983.

FOR FURTHER INFORMATION CONTACT: Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452–3281); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377–6446); Joseph A. DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389–4147); Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447–1880); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566–8737).

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. 96–221; 12 U.S.C. 3501 *et seq.*) ("DIDA") was enacted to provide for the orderly phase out 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 DIDA, the Committee is authorized to phase out interest rate ceilings by any one of a number of methods, including the elimination of limitations applicable to particular categories of accounts, the creation of new account categories not subject to interest rate ceilings or with interest rate ceilings set at market rates of interest.

The Committee has considered the issue of short-term time deposits at each of its meetings since June 25, 1981. At that meeting, the Committee determined to request public comment on the desirability of authorizing a new deposit instrument having characteristics similar to money market mutual funds ("MMFs") (46 FR 36712, July 15, 1981). Over 400 comments were received in response to the Committee's request.

The Committee considered these comments at its September 22, 1981 meeting and determined to solicit additional public comment (46 FR 50804, October 15, 1981) on several specific proposals for a short-term deposit designed to compete with money market instruments that are available in denominations of less than $100,000. The three specific proposals were: (1) A ceilingless, $5,000 minimum denomination account with a transactions feature; (2) a time deposit with an initial maturity of 91 days, and a 14-day notice period thereafter, with a ceiling rate tied to the 13-week Treasury bill rate; and (3) a ceilingless $25,000 minimum denomination 1-day notice account. Comment was requested on several specific account characteristics as well. On December 16, 1981, the Committee postponed consideration of the matter until its next meeting.

At its March 22, 1982 meeting, the Committee considered the comments received and authorized, effective May 1, 1982, a new category of time deposit with a minimum denomination of $7,500, a maturity of 91 days, and a fixed interest rate ceiling based on the most recent rate (auction average on a discount basis) established and announced for U.S. Treasury bills with maturities of 91 days. At that time, the Committee recognized that the new deposit category would not be fully competitive with instruments being offered by non-depository institutions. Therefore, the Committee directed its staff to continue efforts to design additional short-term deposit categories to enable depository institutions to compete more effectively with MMFs.

After consideration of the comments received and the analysis and discussions from previous meetings, as summarized above, the Committee determined to authorize, effective September 1, 1982, a new category of short-term time deposit with the following principal characteristics: (1) A minimum denomination of $20,000; (2) a maturity or required notice period of no less than seven days and no more than 31 days as agreed to by the depositor and the institution; and (3) a ceiling rate for all depository institutions based on the 91-day Treasury bill rate (auction average on a discount basis) at the most recent auction.

Of all the instruments put forth for comment in October 1981, the $5,000 minimum denomination transaction account was clearly the most popular because it was generally perceived to be the most competitive vis-a-vis MMFs. Nevertheless, the Committee declined to authorize such an instrument, principally because of the large increase in the interest costs of depository institutions—particularly thrifts—that could have resulted from massive shifting of funds out of low-yielding passbook accounts. Indeed, the two accounts subsequently created by the Committee were structured expressly to limit the extent of such shifting. More recently, at its September meeting the Committee considered petitions by four state regulatory agencies to permit federally-insured depository institutions in those states to offer "Super NOW accounts" or similar accounts. These petitions were denied partly because of the probable impact on earnings of thrift institutions and the potential for disruptions in regional flows of funds; the Committee also wanted to delay action on a selective state-by-state basis until after Congress had authorized expanded asset powers for the thrift institutions, after which the Committee wanted to consider creating a new account that would be available nationwide.

In October 1982, Congress directed the Committee to establish a category of account "directly equivalent to and competitive with money market mutual funds." The Committee established the Money Market Deposit Account ("MMDA"), effective December 14, 1982, with a $2,500 minimum balance, no interest rate ceiling and limited transactions capability (47 FR 53710, November 29, 1982).

When the Committee requested comment on the MMDA in October, numerous respondents expressed a desire to have the option of offering the account with unlimited transfers and drafts. Many others simply assumed that institutions would have the choice of limiting third-party transfers or structuring the account without such limits, recognizing that the latter option would entail transaction account reserve requirements. Institutions who favored unlimited transfers cited the liquidity and access features of MMFs as key ingredients to their success, and felt that any account intended to compete effectively with MMFs must allow institutions similar flexibility to provide full transactions capabilities.

In light of the authorization of the congressionally mandated MMDA, the Committee believes that it is now appropriate to authorize a transaction account not subject to a rate ceiling. In this regard, the MMDA will likely attract a substantial amount of funds from passbook accounts. Consequently, the Committee believes that the additional effects on shifts of funds from passbook accounts caused by a market-rate transaction account will be minimal and that the earnings effects associated with such an account, therefore, will be diminished considerably.

Accordingly, effective January 5, 1983, the Committee has established a new rule for the payment of interest on NOW accounts that are offered with the following features, many of which also have been established in connection with the MMDA:

(1) $2,500 minimum initial and average balance requirement;

(2) No interest rate ceiling when the average balance is equal to or in excess of $2,500;

(3) The existing NOW account ceiling (5¼ percent) applies when the average balance is less than the minimum average balance;

(4) Compliance with the average balance requirement may be determined over a period of one month;

(5) Institutions must reserve the right to require at least seven days' notice prior to withdrawal;

(6) Loans are not permitted to meet the $2,500 minimum amount;

(7) Unlimited deposit and withdrawal capability; and

(8) Availability to depositors currently eligible to maintain NOW accounts under Federal law.

Minimum balance requirement. The Committee determined to impose an initial balance requirement of $2,500 on NOW accounts that are exempt from rate ceilings. In addition, there will be a minimum balance requirement of $2,500. Depository institutions are free to establish higher balance requirements if they wish.

Compliance with minimum balance requirement. As with the MMDA, a depository institution may determine compliance with the minimum balance requirement (but not the minimum initial balance requirement) by using an average daily balance calculated over any computation period it chooses, such as one day, one week or one month, provided that such a computation period is no longer than a month. A "month" is defined to be either a calendar month or statement cycle (or similar period) of at least 28 days but no longer than 31 days, except that a statement cycle occasionally may be as long as 35 days. Thus, for example, an institution could choose to determine compliance with the minimum balance requirement through the use of a one-week computation period. A depositor will have met the requirement if the average daily balance in the account during the one week computation period is equal to or above $2,500. In order to ensure compliance with the account's minimum initial deposit and balance requirements, the Committee prohibited loans for the purpose of meeting those requirements.

The current ceiling on NOW accounts (5¼ percent) will continue to apply to NOW accounts that have balances of less than $2,500 and to other NOW accounts that are not subject to the conditions under which a NOW account may be offered without regard to a ceiling rate. The 5¼ percent NOW account ceiling rate will apply for the entire computation period in which the average balance in the account is less than $2,500. For example, an institution which uses an average balance computed over a seven-day period may pay a depositor a rate not in excess of 5¼ percent for the entire seven-day period if the depositor's average daily balance during that seven-day period is less than $2,500. Depending on the computation period chosen and the interest crediting practices of the institution, the lower rate may have to be imposed on an *ex post* basis.

Guarantee of rate. The Committee determined to impose a maximum limitation of one month (as defined above) on the length of time a depository institution may commit itself to pay any rate of interest or commit itself to employ any method of calculation of the rate of interest on the new account. The Committee also determined to prohibit an institution from conditioning the rate of interest paid or the method of calculation of the rate of interest paid on the new account on the length of time a deposit is maintained, if that length of time is longer than a month (as defined above). For example, a depository institution may not obligate itself to pay the 91-day Treasury bill rate for a period of six months. Nor may a depository institution, in effect, guarantee a specified or indexed rate of interest for over one month by agreeing to pay a rate (*e.g.,* 30%) for one month on the condition that the deposit will be maintained for over one month (*e.g.,* 180 days).

Reservation of notice. The Committee imposed a requirement that institutions reserve the right to require at least seven days' prior notice of withdrawals or transfers from NOW accounts not subject to a ceiling rate. The Committee determined that if an institution chooses to exercise its right to require notice, it must apply that requirement equally to all depositors that maintain accounts subject to the new interest payment rules.

Additions to the account. The Committee determined to impose no restrictions on the size or frequency of additions to the new account, including additions effected by sweeps from other accounts into the new account.

Transactions and withdrawals. As with existing NOW accounts, depository institutions may permit withdrawals to be made from ceiling-free NOW accounts by any means and without limit as to size or frequency.

Eligible depositors. The class of depositors eligible to maintain NOW accounts is specified in the Consumer Checking Account Equity Act of 1980 (12 U.S.C. 1832(a)), section 706 of the Garn-St Germain Act (96 Stat. 1540), and regulations of the Federal Reserve Board (12 CFR 217.157), the Federal Deposit Insurance Corporation (12 CFR 329.103) and the Federal Home Loan Bank Board (12 CFR 532.2). Under the Consumer Checking Account Equity Act, NOW accounts may consist of "funds in which the entire beneficial interest is held by one or more individuals or by an organization which is operated primarily for religious, philanthropic, charitable, educational or other similar purposes and which is not operated for profit." The Garn-St Germain Act extends NOW account eligibility to funds of "the United States, any State, county municipality or political subdivision thereof, the District of Columbia, the Commonwealth of Puerto Rico, American Samoa, Guam, any territory or possession of the United States, or any political subdivision thereof." These are the only depositors that are permitted to have NOW accounts. Deposits in which any beneficial interest is held by a corporation, partnership, association, or other organization that is operated for profit or is not operated primarily for religious, philanthropic, charitable, educational, fraternal or other similar purposes, or that is not a governmental unit may not be classified as NOW accounts.

Reserve requirements. Currently, under the Federal Reserve Board's Regulation D—Reserve Requirements of Depository Institutions (12 CFR Part 204), all NOW accounts are subject to the same reserve requirements. In this regard, a depository institution is subject to a full reserve requirement of 3 percent on the first $26.3 million tranche of its NOW accounts and to a 12 percent reserve requirement on amounts above $26.3 million. Depository institutions in the New England states, New York, and New Jersey are subject to a phase-in of reserve requirements on such accounts.

Depository institutions will have the option of modifying the rate of interest paid on existing NOW accounts or of offering a new account not subject to a rate ceiling. Where the interest rate is changed on an existing account, other specified conditions applicable to the MMDA also must be met.

The Committee believes that this action will assist depository institutions in competing with other financial instruments that offer market rates of return on short-term investments, such as MMFs. The ability to offer $2,500 minimum balance NOW accounts not subject to a rate ceiling should assist depository institutions to attract new funds by competing with other investment alternatives, help stem deposit outflows, and enhance the ability of institutions to attract and retain valuable customer relationships.

The Committee considered the potential effect on small entities of removing the interest rate ceiling on NOW accounts of $2,500 or more, 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 requirements. Small entities that are depositors generally should benefit from the Committee's action since removing the interest rate ceiling on NOW accounts above $2,500 will provide them a market rate of return on short-term deposits. The competitive position of small depository institutions vis-a-vis nondepository competitors should be enhanced by their ability to offer a more competitive short-term instrument with unlimited transactions capability at market rates. The new funds that will be attracted as a result of this action (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 cost associated with the shifting of low-yielding accounts.

List of Subjects in 12 CFR Part 1208

Banks, banking.

PART 1204—[AMENDED]

Pursuant to its authority under Title II of Pub. L. 96-221 (94 Stat. 142; 12 U.S.C. 3501 *et seq.*) to prescribe rules governing the payment of interest and dividends on deposits and accounts of federally insured commercial banks, savings and loan associations, and mutual savings banks, the Committee amends Part 1204 (Interest on Deposits), effective January 5, 1982, as follows:

1. By revising § 1204.108 to read as follows:

§ 1204.108 Maximum rates of interest payable by depository institutions on deposits subject to negotiable orders of withdrawal.

Commercial banks, savings and loan associations, and mutual savings banks ("depository institutions") may pay interest on any deposit or account subject to negotiable or transferable orders of withdrawal that is authorized pursuant to 12 U.S.C. 1832(a).

(a) At a rate not to exceed 5¼ percent per annum, or

(b)(1) At any rate on an account subject to the conditions of this paragraph with an initial balance of no less than $2,500 and an average deposit balance (as computed in paragraph (b)(2) of this section) of no less than $2,500. However, for an account with an average balance of less than $2,500, a depository institution shall not pay interest in excess of the rate specified in paragraph (a) of this section for the entire computation period, as described in paragraph (b)(2) of this section.

(2) The average balance in paragraph (b)(1) of this section may be calculated on the basis of the average daily balance over any computation period selected by an institution which is not longer than one month. (For purposes of this paragraph (b) of this section, "month" shall mean, at a depository institution's option, a calendar month or statement cycle. A statement cycle is normally 28 to 31 days, but may occasionally be as long as 35 days.)

(3) A depository institution may not obligate itself to pay any interest rate or obligate itself to employ any method of calculation of an interest rate on this account for a period longer than one month. A depository institution may not condition the interest rate paid upon the period of time the funds remain on deposit in this account, if that period is longer than one month.

(4) Depository institutions must reserve the right to require at least seven days' notice prior to withdrawal or transfer of any funds in this account. If such a requirement for a notice period is imposed by a depository institution on one depositor, it must be applied equally to all other depositors holding an account subject to this paragraph at the same institution.

(5) A depository institution is not permitted to lend funds to a depositor to meet the $2,500 balance requirements of this paragraph.

2. In § 1204.122, by revising paragraph (a), to read as follows:

§ 1204.122 Money market deposit account.

(a) Commercial banks, mutual savings banks, and savings and loan associations ("depository institutions") may pay interest at any rate on a deposit account as described in this section with an initial balance of no less than $2,500 and an average deposit balance (as computed in paragraph (b) of this section) of no less than $2,500. However, for an account with an average balance of less than $2,500, a depository institution shall not pay interest in excess of the ceiling rate for NOW accounts (12 CFR 1204.108(a)) for the entire computation period, as described in paragraph (b) of this section.

* * * * *

By order of the Committee, December 14, 1982.

Mark Bender,

Acting Executive Secretary.

[FR Doc. 82-34269 Filed 12-15-82; 8:45 am]

BILLING CODE 4810-25-M

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12 CFR Part 1204

[Docket No. D-0029]

Short-Term Time Deposit Accounts

AGENCY: Depository Institutions Deregulation Committee.

ACTION: Final rule.

SUMMARY: The Depository Institutions Deregulation Committee ("Committee") has amended its rules to remove the ceiling on the rate of interest payable on 7- to 31-day time deposits and to lower the minimum denomination requirement on this account, as well as the 91-day time deposit and 26-week money market time deposit ("MMC"), to $2,500. The existing minimum denomination requirements on these deposits are $20,000, $7,500, and $10,000, respectively. The Committee's actions were taken to conform the minimum denominations of these accounts with the Money Market Deposit Account ("MMDA") and because the interest rate ceiling on the 7- to 31-day account is not necessary in light of the establishment of the MMDA, which may be offered for similar time periods.

EFFECTIVE DATE: January 5, 1983.

FOR FURTHER INFORMATION CONTACT: Paul S. Pilecki, Senior Attorney, Board of Governors of the Federal Reserve System (202/452-3281); Alan Priest, Attorney, Office of the Comptroller of the Currency (202/447-1880); F. Douglas Birdzell, Counsel, and Joseph A. DiNuzzo, Attorney, Federal Deposit Insurance Corporation (202/389-4147); Rebecca Laird, Senior Associate General Counsel, Federal Home Loan Bank Board (202/377-6446); or Elaine Boutilier, Attorney-Adviser, Treasury Department (202/566-8737).

SUPPLEMENTARY INFORMATION: The Depository Institutions Deregulation Act of 1980 (Title II of Pub. L. No. 96-221; 12

U.S.C. 3501 et seq.) ("DIDA") 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 DIDA, 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.

Pursuant to this statutory authorization, the Committee's rules set forth a number of deposit categories bearing market rates of interest. Among these are 7- to 31-day time deposits (12 CFR 1204.121), 91-day time deposits (12 CFR 1204.120) and MMCs (12 CFR 1204.104). These accounts have minimum denomination requirements of $20,000, $7,500 and $10,000, respectively, and ceiling rates of interest on these accounts generally are based on the 91-day U.S. Treasury bill rate (auction average on a discount basis) for the 7- to 31-day and 91-day accounts, and the 26-week U.S. Treasury bill rate (auction average on a discount basis) for MMCs.

The Committee has established a new deposit account ("MMDA"), as required by the Garn-St Germain Depository Institutions Act of 1982, Pub. L. No. 97-320 ("Garn-St Germain Act"). The new deposit account has the following principal characteristics: (1) An initial and average balance requirement of no less than $2,500; (2) a requirement that depository institutions reserve the right to require at least seven days' notice prior to withdrawal or transfer of funds; (3) no interest rate ceiling on deposits which satisfy the initial and average balance requirements; (4) no more than six preauthorized, automatic or other third party transfers per month, of which no more than three can be checks; and (5) availability to all depositors. In addition, at its December 6, 1982 meeting, the Committee established a new rule for the payment of interest on NOW accounts that have balances of not less than $2,500 and are subject to certain of the restrictions that apply to the MMDA.

Under existing regulations, depository institutions may guarantee for up to one month the offering rate on MMDAs. Therefore, institutions can structure the new account to substitute for the existing 7- to 31-day account, rendering the ceiling on the latter account meaningless. Thus, the Committee has amended its regulations to remove that ceiling. The interest rate ceiling on this account is currently suspended because the 91-day bill rate has been below 9 percent and under existing regulations is scheduled to be removed on May 1, 1983.

In designing these and other short-term deposit instruments, the Committee traditionally has attempted to strike a balance between enabling institutions to compete effectively with market instruments and minimizing the potential for shifts from lower-yielding savings deposits. In addition to establishing fixed maturities, the Committee has sought to accomplish this objective through large minimum denomination requirements on the 7- to 31-day, 91-day, and 26-week accounts. Now that the Committee has implemented Section 327 of the Garn-St Germain Act by authorizing a money market deposit account with a minimum denomination of $2,500, the potential for shifts from lower-yielding savings deposits is reduced in importance in establishing the terms on short-term deposit instruments. Since the MMDA dominates the other short-term deposits as a substitute for savings deposits, altering the minimum denomination on the other deposit categories is unlikely to result in any significant further shifting from lower-yielding accounts. Consequently, the Committee has determined that it is appropriate to reduce to $2,500 the minimum denomination requirements for the 7- to 31-day account, 91-day account, and MMC.

The provisions of 5 U.S.C. 553(b) relating to notice and public participation have not been followed in connection with adoption of these amendments because such actions involve conforming amendments to existing regulations that are considered appropriate in light of the Committee's action in establishing the MMDA and ceilingless NOW account. These accounts have, as a practical matter, rendered the ceiling on the 7- to 31-day account and the minimum denomination requirements of all three short-term time deposits meaningless. Thus, the Committee has determined that notice and public participation is unnecessary in connection with this action. In addition, the Committee has not deferred the effective date of these amendments in accordance with 5 U.S.C. 553(d) since these actions relieve restrictions.

List of Subjects in 12 CFR Part 1204

Banks, banking.

PART 1204—[AMENDED]

Pursuant to its authority under Title II of Pub. L. 96-221 (94 Stat. 142; 12 U.S.C. 3501 *et seq.*) to prescribe rules governing the payment of interest and dividends on deposits and accounts of federally insured commercial banks, savings and loan associations, and mutual savings banks, the Committee amends Part 1204—Interest on Deposits, effective January 5, 1983, to read as follows:

1. By revising the first sentence in § 1204.104 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 $2,500 or more, with a maturity of 26 weeks, at a rate not to exceed the ceiling rates set forth below. * * *

2. In § 1204.120, by revising paragraph (a) to read as follows:

§ 1204.120 91-day time deposits of less than $100,000.

(a) Commercial banks, mutual savings banks, and savings and loan associations may pay interest on any negotiable or nonnegotiable time deposit of $2,500 or more, with a maturity of 91 days, at a rate not to exceed the ceiling rates set forth below. Rounding any rate upward is not permitted, and interest may not be compounded during the term of this deposit.

* * * * *

3. In § 1204.121, by removing paragraph (b), by redesignating paragraph (c) as (b), and by revising the section heading and paragraph (a) to read as follows:

§ 1204.121 7- to 31-day time deposits of $2,500 or more.

(a) Commercial banks, mutual savings banks, and savings and loan associations may pay interest at any rate as agreed to by the depositor on any nonnegotiable time deposit of $2,500 or more, with a maturity or required notice period of not less than 7 days nor more than 31 days. However, a depository institution shall not pay interest in excess of the ceiling rate for regular savings deposits or accounts on any day the balance in a time deposit issued under this section is less than $2,500.

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By order of the Committee, December 14, 1982.

Mark Bender,

Acting Executive Secretary.

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