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Mortgages with Adjustable Interest Rates Improve Viability of Thrift Industry

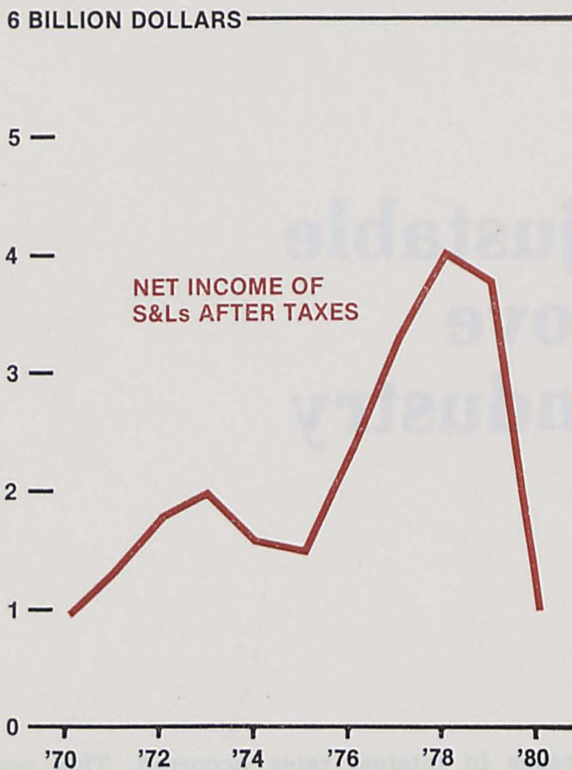
By Bronwyn Brock

Savings and loan associations and, in New England, mutual savings banks currently provide the financing for almost half of the homes purchased in the United States. The financing instrument used most frequently by these thrift institutions since the 1930's has been the standard fixed-payment mortgage (SFPM), on which the interest rate and nominal level of payments are constant for up to 30 years. This instrument was profitable before 1965, when prices and long-term interest rates were stable. Since then, the profitability of thrifts has been impaired by the upward trend of interest rates, as the cost of today's short-term deposits exceeds the return on long-term mortgage loans made in previous years. Consequently, thrift institutions have been developing mortgage instruments on which the contract rate of interest can be adjusted to reflect changes in market interest rates.

This article briefly reviews the use of mortgages with adjustable interest rate clauses in the United States, Canada, and the United Kingdom. The introduction of these mortgages has often been accompanied by concern that borrowers would face excessive increases in their payments if large increases in interest rates occurred. This review gives special attention to regulations intended to protect borrowers from such developments. Experience indicates that some regulations have prevented mortgage lenders from effectively using adjustable interest rate mortgages to restore profits.

Lenders in the United Kingdom have been using mortgages with provisions for interest rate adjustment for 35 years, but social and political pressure to defer adjustments has limited the profitability of these loans. In Canada, home purchases have been successfully financed with adjustable interest rate mortgages for over a decade. Lenders there have had considerably more freedom to change the interest rate, however.

Mortgage lenders in the United States did not make many loans with adjustable interest rates until 1975, when thrifts in California and New England began using alternatives to the fixed interest rate mortgage on a significant scale. In this country, legal limitations on the size of interest rate adjustments have been common, and in some cases efforts to protect borrowers have discouraged the use of adjustable interest rate loans. But the



most restrictive regulations were relaxed last year, and use of these loans in the United States is expanding.

Alternatives to fixed-rate mortgages vary

Most current U.S. alternatives to the fixed-rate mortgage consist of mortgages with provisions for periodic adjustment of the contract interest rate. The alternative used most often in this country is the *variable rate mortgage* (VRM). This is a long-term mortgage contract on which the interest rate is adjusted once or twice annually. The VRM has been used extensively in California and New England, as well as in the United Kingdom. In 1979 the Federal Home Loan Bank Board (FHLBB) authorized use of the VRM by federally chartered savings and loan associations in California and extended authorization nationwide later that same year.

The *rollover mortgage* (ROM), used in Canada and by some residential mortgage lenders in New England, amortizes the mortgage debt on a long-term basis, typically 30 years, with a series of short-term loans whose maturities range from one to five years. Each loan in the series is issued at an interest rate that reflects contemporaneous market conditions.

The *renegotiable rate mortgage* (RRM) is a version of the rollover mortgage that the FHLBB authorized for federally chartered savings and loan associations in 1980. The RRM allows adjustment of the interest rate every three to five years.

Mortgages with adjustable rate provisions often have consumer protection clauses

Rises in interest rates produce increases in the payments the borrower must make to pay back a loan. Consequently, consumer protection clauses are often included in mortgages with adjustable interest rate provisions to limit the risk faced by the borrower. Such measures have been more common in the United States than in Canada and the United Kingdom.

Restrictions in the United States have included limitations on the size of the adjustment in the interest rate that may be made at any one time and limitations on the total interest rate change that may accumulate over the life of the loan. Individual adjustments are also constrained by linking the interest rate on the loan to an index of either lenders' cost of funds or mortgage market interest rates. Interest rate decreases, if indicated by movement of the index, are usually mandatory, but increases are at the option of the lender. Some mortgages with adjustable interest rates require the lender to extend the maturity of the loan to offset an increase in payments when the interest rate rises. The prohibition of prepayment penalties further protects the borrower, for it allows him to transfer his mortgage to another lender if a more favorable rate is available.

The constraints on interest rate adjustments prevent large changes in borrowers' monthly mortgage payments when indexes move substantially. These constraints are beneficial to lenders as well, because they limit both the possibility of default and potential decreases in mortgage revenues.

Ensuring that prospective borrowers have a

Fluctuations in interest rates have been larger since 1965, causing difficulties for thrift institutions

12 PERCENT PER ANNUM
10
8
6
4
2
0
1940
1950
1960
1970
1980

SEASONED Aaa CORPORATE BONDS (MOODY'S)

RATE CEILING ON PASSBOOK DEPOSITS AT S&Ls

PRIME COMMERCIAL PAPER (4- to 6-MONTH)

SOURCES: Board of Governors, Federal Reserve System. United States League of Savings Associations.

choice of a fixed-rate or an adjustable rate mortgage and requiring that lenders fully explain the terms of an adjustable rate mortgage have also been major regulatory objectives in the United States. Initially, the proportion of the portfolio of a federally chartered savings and loan association that could be in VRMs was limited to one-half to ensure the continued availability of SFPMs. Federally chartered S&Ls were also required to demonstrate payment schedules for both the VRM and the SFPM, including a worst-case example for the VRM and a 10-year history of the VRM index if one of the payment schedules showed a decrease.

Restrictions in the United States have included limitations on the size of the adjustment in the interest rate that may be made at any one time and limitations on the total interest rate change that may accumulate over the life of the loan.

These provisions have since been relaxed. Experience proved portfolio restrictions to be unnecessary, and the worst-case comparison discouraged borrower selection of the VRM. Instead, a worst-case comparison is required for only the first few years, along with an explanation of the index and a demonstration of the highest and lowest rates to be paid. Additional regulations on loans with adjustable interest rates relate to a 90-day notification of a rate increase and payment of renewal or adjustment costs by the lender.

Lenders frequently include additional inducements, or "sweeteners," to increase the attractiveness of these mortgages to consumers. The original interest rate is usually offered at a discount from the rate on SFPMs. Other sweeteners include assumability of the loan by qualified borrowers and an open line of credit guaranteed the borrower at the prevailing market rate of interest.

Canadian rollover mortgages effective with minimal government regulation

Most single-family homes in Canada are purchased with rollover mortgages, which amortize the mortgage debt on a 20- to 40-year basis with a series of short-term loans that usually mature in five years. The short-term loans are not secured by a long-term mortgage, and the lender is not legally required to refinance the mortgage debt. Interest rates on the loans at renewal are set at current market rates rather than according to any index reference rate.

The two types of residential mortgages made in Canada are conventional loans by private lenders and government-guaranteed mortgages provided for in the National Housing Act (NHA). Both are typically five-year rollovers, with interest rates and payments that are fixed for the life of each short-term loan in the series. The series of loans are scheduled to amortize mortgage debts over a period of 20 to 30 years for conventional mortgages and up to 40 years for NHA government-guaranteed mortgages.

Use of the five-year rollover mortgage dates back to 1931 for conventional mortgages and to 1969 for NHA mortgages. Interest rate ceilings on conventional mortgages were abolished in 1967 because increases in interest rates were diverting funds from mortgage loans when market rates exceeded mortgage rates. To increase the supply of government-guaranteed mortgages, rate ceilings on these loans were abolished in 1969 and the use of ROMs was approved for NHA loans.

Thus, although ROMs have been available in Canada since the 1930's, their widespread use was spurred by the impact that the inflation-related volatility of interest rates and savings flows had on mortgage lending. By the late 1960's, most mortgage lenders began to limit their offerings to ROMs. The introduction of deposit insurance in 1967 also contributed to the adoption of the rollover mortgage, since coverage was available only for deposits with maturities of five years or less and for balances of $20,000 (Canadian dollars) or less. The five-year deposit became a favored liability of depository mortgage lenders because funds so obtained could be loaned at fixed rates for five years at profitable margins. Since 1973, a number of residential mortgage lenders have been offering ROMs consisting of a series of loans with maturities of one to four years to better match the changes occurring in their deposit liabilities as savers, apparently reacting to inflation, demand deposit certificates with shorter maturities.

Although Canadian mortgage lenders are not legally required to refinance a mortgage debt when one of the series of short-term loans constituting

the rollover mortgage has matured, loans are usually renewed unless payments are severely in arrears. Borrowers rarely exercise the right to transfer to another lender because the mortgage lending industry in Canada is highly concentrated and interest rates vary little among lenders. With a conventional mortgage the borrower faces higher monthly payments if the interest rate rises when the short-term loan is renewed, but the holder of a government-guaranteed mortgage has the option of extending the repayment period up to 40 years to prevent an increase in payments.

The rollover mortgage has been well accepted by both borrowers and lenders in Canada. The instrument is considered one reason why the decline in housing starts in 1974 was not as precipitous in Canada as in the United States.[1]

Government intervention has reduced effectiveness of VRM in United Kingdom

The United Kingdom has used variable rate mortgages within an institutional structure similar to that found in the United States. In use since 1945, the VRM is the primary type of mortgage currently offered by building societies, depository financial institutions that are similar to savings and loan associations in the United States and provide 95 percent of the United Kingdom's residential mortgages. The VRM in the United Kingdom is initially scheduled to amortize the mortgage debt over 20 to 25 years on a level-payment basis. In the event of an interest rate increase, the borrower is given the choice of higher monthly payments to repay the loan in full within the originally scheduled interval or an extension of the loan's maturity to prevent an increase in monthly payments. As a result of recent high interest rates, maturities on some loans have surpassed borrowers' normal life spans.

Interest rates on VRMs are changed at the discretion of the lender rather than at some predetermined interval, and rates are not linked to any index. In practice, however, changes in the rate of interest paid on savings deposits and charged on mortgage loans occur only upon recommendation by the Council of the Building Societies Association, which is the trade association of the principal U.K. residential mortgage lenders. Rate changes at building societies typically lag changes in market interest rates because the societies are subject to political pressure to keep rate increases small and infrequent. The trade association recommends a change in rates only after deposits and loans at societies as a group are curtailed and market rates are judged as certain not to reverse soon.

The margin between building societies' earnings and expenses has declined in recent years as increases in mortgage rates have fallen behind increases in deposit rates. To slow rate increases, subsidies have been provided to the societies when their earnings were low. In 1974, for example, the government loaned £500 million at low interest rates to building societies to enable them to continue to make mortgage loans.[2]

Use of the variable rate mortgage and subsidies to the building societies have accompanied increases in the level of homeownership in the United Kingdom. In 1900, half of the families in the United States owned their homes, while only a tenth of British families owned theirs. Since then, the proportion has risen to 65 percent in the United States and 54 percent in the United Kingdom. Over half of the increase in the latter country has occurred since 1945, when VRMs came into general use.

Thrifts in California and New England among first in the country to use adjustable interest rate mortgages

In the United States, mortgages with adjustable interest rates were used primarily in California and New England before federally chartered S&Ls nationwide were authorized to offer them. Usury laws and the uncertain legal status of alternative mortgage instruments slowed their use in most

1. Michael L. Unger, "The Canadian Mortgage Market and the Renegotiable Term Mortgage," in *Alternative Mortgage Instruments Research Study*, directed by Donald M. Kaplan and commissioned by the Federal Home Loan Bank Board, 3 vols. (Washington, D.C.: Government Printing Office, 1978), vol. 1, chap. 7.

2. For detailed discussions of residential mortgages in Canada and the United Kingdom, see Donald R. Lessard, "Roll-Over Mortgages in Canada," and David L. Cohen and Donald R. Lessard, "Experience with Variable-Rate Mortgages: The Case of the United Kingdom," both in *New Mortgage Designs for Stable Housing in an Inflationary Environment*, Federal Reserve Bank of Boston Conference Series, no. 14 (1975).

other states. The FHLBB did not authorize federally chartered S&Ls to issue variable rate mortgages until 1979, and their use by these institutions has not been widespread. Initially, the VRM was the alternative mortgage issued most frequently in the United States, accounting for 87 percent of the funds loaned via alternative mortgage instruments by the end of 1976.

Although the variable rate mortgage was legal in California in the midsixties, this instrument was not widely used until 1975, when VRM lending accounted for almost 80 percent of the mortgage loans closed by large state-chartered S&Ls and 18 percent of the mortgage loans closed by all California S&Ls. VRM lending continued at this rate in 1976 but has since declined, accounting for only 20 percent of the loans closed in 1980 by large state-chartered S&Ls. Mortgage interest rates have risen over this period and are currently as high as 18 percent. Consequently, mortgage lending is very slow. Lenders have eliminated the discount on most VRMs and are offering more fixed-rate mortgages with prepayment penalties in anticipation of future declines in long-term interest rates.

Lenders are also awaiting the outcome of a bill in the state legislature to restructure consumer protection provisions of the variable rate mortgage. In the past, interest rate adjustments on California VRMs have been tied to changes in an index of West Coast mortgage lenders' cost of funds and limited to a maximum of 1/4 percentage point semiannually. In 1976, additional regulation limited accumulated interest rate changes over the life of the loan to 2 1/2 percentage points.

Use of alternative mortgage instruments also became significant in New England in 1975. The most common were ROMs and VRMs, although ROMs outnumbered VRMs three to one, possibly because ROMs required less complicated billing and administrative procedures and were easier to explain to real estate agents and borrowers. But the two were considered good substitutes by lenders and consumers.

Regulation of mortgages with adjustable interest rates was less restrictive in New England than in California. Mortgage lenders were not required to link adjustments in interest rates to a particular index. Most linked changes in their variable rate loans to an index of mortgage rates, which is more volatile than the fairly sluggish cost-of-funds index used in California. No limits were imposed on interest rate changes on these loans, although Massachusetts lenders had voluntary guidelines to follow.

The discount on adjustable interest rate mortgages was greater in New England—usually 1/2 percentage point, compared with 1/4 percentage point in California. The New England discount was probably greater because the region was not experiencing the strong demand for mortgage funds that existed in California and lenders were more aggressive in competing for residential mortgage loans. The fact that New England mortgages exposed borrowers to greater risk than the California VRMs also may have contributed to the larger discount in New England.

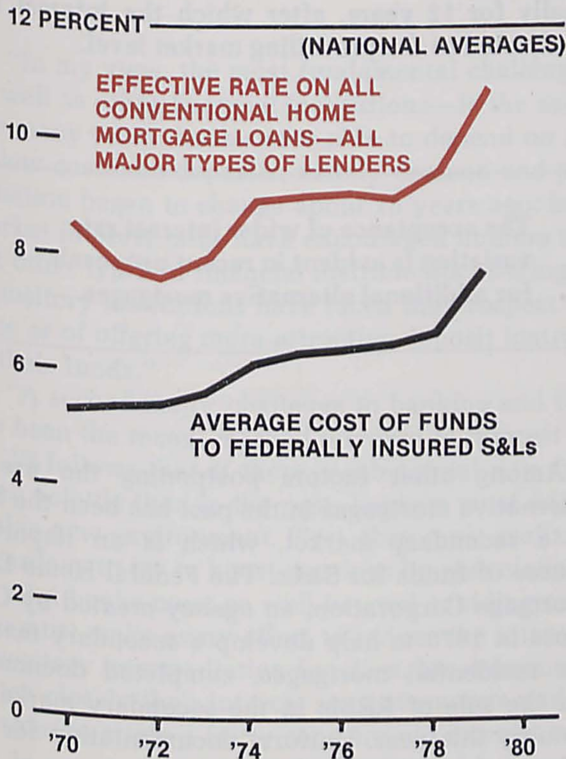
Federal regulations accept greater flexibility in adjustable interest rate mortgages

In 1979 the FHLBB approved the variable rate mortgage for use by federally chartered S&Ls. Authorization was given to S&Ls in California in January because of the competitive disadvantage at which they had been placed by the VRM lending of state-chartered S&Ls. Authorization for federally chartered S&Ls in other states followed in July.

The Federal variable rate mortgage was not successful on a national basis. In an attempt to provide federally chartered S&Ls with a more attractive instrument, the FHLBB approved the renegotiable rate mortgage, effective in April 1980.

The instrument was very similar to the VRM already available at state-chartered S&Ls in California. Interest rate adjustments were limited to a maximum of 1/2 percentage point per year and capped at 2 1/2 percentage points over the life of the loan. But federally chartered S&Ls were required to limit the proportion of VRMs in their mortgage portfolios as well as provide borrowers with a comparison of payment series under SFPMs and VRMs that presented variable rate mortgages in an unfavorable light.

The Federal VRM was not successful on a national basis. In an attempt to provide federally chartered S&Ls with a more attractive instrument,



the FHLBB approved the renegotiable rate mortgage, effective in April 1980. The RRM is structured as a series of fixed-payment loans with maturities ranging from three to five years. These loans are to be secured by a 30-year mortgage to avoid problems with local lien laws. Lenders can also offer the RRM as a 30-year loan with three- to five-year adjustments of the interest rate.

Although the instrument is entitled "renegotiable," the borrower contributes no input concerning the interest rate at which the loans are renewed. Rates are linked to the FHLBB national index for mortgage rates on loans made by all major lenders for purchases of previously occupied homes. The maximum possible increase in interest rates was doubled on the Federal RRM from the VRM provisions to 5 percentage points over the life of the loan. Disclosure requirements are less restrictive for the RRM than for the Federal VRM, as lenders must show the maximum increase in interest and monthly payments only for the first loan term. There are no restrictions on the proportion of RRMs in mortgage lenders' portfolios.

Despite these improvements and the lenders' need for mortgages with adjustable rate provisions, initial acceptance of the renegotiable rate mortgage was slow. Decisions on terms, pricing, and documents for the instrument and S&Ls' efforts to prepare for the implementation of NOW (negotiable order of withdrawal) accounts in January this year possibly retarded use of the RRM. Also, high interest rates currently are discouraging demand for any type of mortgage loan. Few S&Ls nationwide were offering the RRM two months after its authorization, but some S&Ls in Texas, both state-chartered and federally chartered, are now offering only mortgages with adjustable rate provisions.

Two Texas alternatives offer lenders more freedom

The FHLBB devised a practical solution for federally chartered S&Ls in the renegotiable rate mortgage. In Texas, state-chartered S&Ls are using two less restrictive instruments that offer lenders more freedom to adjust interest rates.[3]

For the state's lenders the common alternative to the Federal RRM is known as the *Texas rollover mortgage*, which is a series of short-term loans not secured by a long-term mortgage. The maturity period on the short-term loans ranges from one to five years. The lender may guarantee financing for additional loans for up to 481 months, but renewal is not automatic and the borrower is required to return to the lending S&L at the end of each term to renew the loan. Neither an index nor a ceiling on interest rate increases is specified in the authorizing regulations. Thus, lenders can issue each loan in the series at the market rate. The lack of any penalty if the mortgage is paid off when a loan in the series matures should discourage the lender from increasing interest rates above market levels. However, some institutions are linking rate changes to an index in an effort to increase customer acceptance.

3. Patricia L. Tush, "Market-Sensitive Mortgages," *Texas League Savings Account*, September 1980.

The state's other alternative to the Federal RRM is the *Texas adjustable rate mortgage*. The loan has a maturity of up to 481 months. Adjustment of the interest rate is at intervals of six months to five years, with adjustment of monthly payments ranging from one to five years to facilitate grouping of mortgages and payment dates. Changes in the interest rate are linked to the index for the average cost of funds to federally insured S&Ls or any representative index approved by the Commissioner of the Texas Savings and Loan Department. Ceilings on interest rate adjustments are at the option of the lender. Rate increases dictated by changes in the index are optional, but decreases are mandatory. There is no prepayment penalty.

Federal authorities also encouraging wider use of alternative mortgages

Business loans with adjustable interest rates became common in the 1970's. Adoption of mortgage loans with variable interest rates has been slow, owing partly to consumer resistance and to regulations designed to protect consumers. But, as pointed out earlier, such consumer protection clauses are becoming less restrictive.

The acceptance of wider interest rate variation is evident in recent proposals for additional alternative mortgages. The Comptroller of the Currency has proposed a residential mortgage for commercial banks that adjusts the interest rate up to 1/2 percentage point every six months. The FHLBB has proposed increasing the frequency of the interest rate adjustment on Federal VRMs to 1/2 percentage point every six months (from 1/2 percentage point annually) and increasing the maximum allowable interest rate adjustment over the life of the loan to 5 percentage points (from 2 1/2 percentage points). Proposed changes in the RRM include increasing the maximum interest rate adjustment to 1 percentage point annually (from 1/2 percentage point) while providing the borrower the option of a 40-year loan maturity to forestall payment increases. The Federal National Mortgage Association has proposed an adjustable rate mortgage with increases up to 1 percentage point annually for 12 years, after which the interest rate is adjusted to the prevailing market level.

The acceptance of wider interest rate variation is evident in recent proposals for additional alternative mortgages.

Among other factors postponing the use of alternative mortgages in the past has been the lack of a secondary market, which is an important source of funds for S&Ls. The Federal Home Loan Mortgage Corporation, an agency created by Congress in 1970 to help develop a secondary market for residential mortgages, completed documents for the sale of RRMs in the secondary market in January this year. Uniform documentation for the sale of the RRM should speed acceptance of this instrument by federally chartered S&Ls. State-chartered S&Ls are participating in the secondary market directly, rather than using an institutional buyer. The secondary market for alternatives to fixed interest rate mortgages must grow considerably, however, before the instruments are likely to be as widely accepted in the United States as they have been in other countries.

“Fed Quotes”

Brief Excerpts from Recent Federal Reserve Speeches, Statements, Publications, Etc.

“In my view, the most fundamental challenge confronting the banking business—as well as other financial institutions—is the escalating competition for deposit funds. For many years, banks were able to depend on a growing and reasonably stable base of low-cost core deposits, mainly demand and passbook savings accounts. This situation began to change about 15 years ago, however, and in recent years rising market interest rates have encouraged holders of these deposits increasingly to seek out other types of financial instruments offering substantially higher yields. The depository institutions have faced the prospect either of gradually losing their deposit base or of offering more attractive deposit instruments in order to hold and add to their funds.”

“A second major challenge to banking and to institutional investing generally has been the recent marked increase in interest rate volatility.”

“It follows that, if there is substantial risk that interest rates in the future may be more volatile than in the past, bankers must adjust their thinking and their operations to this new environment. First, they must realize that it has become extremely hazardous to try to boost earnings by speculating on future interest rate movements.”

“But banks must go well beyond avoiding outright interest rate speculation. They also must make every effort to reduce the interest rate risk that is inherent in the depository intermediation function. Most important, banks of all sizes need to match closely their interest sensitive assets and their interest sensitive liabilities in order to attain a fairly constant net interest margin over wide interest rate ranges.”

J. Charles Partee, Member, Board of Governors of the Federal Reserve System (Before the American Institute of Certified Public Accountants, Annual National Conference on Banking, Washington, D.C., December 4, 1980)

“What is clear in circumstances like these, when efforts to restrain monetary growth confront strong private credit demands, is that inevitably large new borrowings by the federal government, whether to finance budgetary deficits or off-budget programs, strongly aggravate pressures on interest rates. As things stand, the deficit for the current fiscal year has been estimated in a range of \$50 billion to \$60 billion by informed observers, and the needs of the Federal Financing Bank could add more than \$20 billion. The demands by the federal government—the nation's prime borrower, but itself insensitive to interest rates—will be met. The question is how many other potential borrowers—many with more productive uses of money—are shouldered aside by market pressures.”

Paul A. Volcker, Chairman, Board of Governors of the Federal Reserve System (Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, January 7, 1981)

New Member Banks

Westlake National Bank, Austin, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business January 2, 1981, as a member of the Federal Reserve System. The new member bank opened with capital of $1,150,000 and surplus of $1,150,000. The officers are: Frank Douglass, Chairman of the Board; Leon W. Cowan, President; Dot Holloway, Vice President and Cashier; and Jack Gorman, Vice President.

Commerce National Bank, College Station, Texas, a newly organized institution located in the territory served by the Houston Branch of the Federal Reserve Bank of Dallas, opened for business January 5, 1981, as a member of the Federal Reserve System. The new member bank opened with capital of $750,000 and surplus of $750,000. The officers are: Henry L. Presnal, D.V.M., Chairman of the Board; Stephen L. Baker, President; and Richard B. Chandler, Cashier

First National Bank, Snyder, Texas, a newly organized institution located in the territory served by the Head Office of the Federal Reserve Bank of Dallas, opened for business January 16, 1981, as a member of the Federal Reserve System. The new member bank opened with capital of $1,000,000 and surplus of $1,000,000. The officers are: Sam Spikes, Chairman of the Board; Lewis B. Nance, President and Chief Executive Officer; Phil Guerry, Vice President; J. A. Shannon, Cashier; and Margaret Lacy, Assistant Cashier and Executive Secretary.

Southwest National Bank, Austin, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business January 19, 1981, as a member of the Federal Reserve System. The new member bank opened with capital of $1,000,000 and surplus of $1,000,000. The officers are: William H. Stoll, Chairman of the Board; Gaylord V. Magnuson, President; John B. Smith, Vice President; and J. C. Carter, Cashier.

Southern National Bank of Corpus Christi, Corpus Christi, Texas, a newly organized institution located in the territory served by the San Antonio Branch of the Federal Reserve Bank of Dallas, opened for business January 26, 1981, as a member of the Federal Reserve System. The new member bank opened with capital of $1,250,000 and surplus of $1,250,000. The officers are: Jerry E. Fischer, Chairman of the Board; Nick Dynis, President; Stan Garner, Vice President; Joyce Armstrong, Cashier; Judy K. Forbes, Assistant Vice President; and Beverly Gentry, Assistant Vice President.

Regulatory Briefs and Announcements

Deregulation Committee Adopts Two Interest Rules, Proposes Rule Changes for Retirement Accounts

The Depository Institutions Deregulation Committee has adopted two final rules regarding interest to be paid on deposits at federally insured depository institutions.

One rule, effective December 15, 1980, stipulates that the minimum required penalty for early withdrawal of funds from an IRA (Individual Retirement Account) or a Keogh plan account, within seven days of the establishment of the account, may not exceed interest earned to the time of withdrawal.

The second rule, effective December 31, 1980, permits certain institutions to phase out over the next 18 months the use of finders fees to attract small-denomination (under $100,000) time and savings deposits. The rule applies to institutions that have relied extensively on the use of such fees.

In addition, the committee has requested comments on a proposal involving changes in rules affecting IRA and Keogh retirement savings plans to enable depository institutions to tailor the plans to the specific needs of individual savers and to market conditions. The proposal has five options to make savings for retirement more attractive:

1. Reduce the minimum maturity of the special IRA/Keogh account from three years to one year.

2. and 3. Alternative plans for simplifying the handling of, and payment of interest on, periodic routine additions to IRA and Keogh accounts.

4. Ceiling rate options for increasing, revising, or eliminating ceiling rates on IRA and Keogh accounts—including no ceiling, a fixed ceiling greater than the prevailing 8 percent, or establishment of a floating rate ceiling.

5. Creation of a new type of IRA/Keogh time deposit with no ceiling rate or other regulatory restrictions other than the general regulatory limits on time deposits, early withdrawal penalty, and the 14-day minimum maturity or notice period.

To avoid the misuse of IRA and Keogh accounts, the committee has also proposed that institutions obtain certification from depositors that they are eligible for such accounts.

Comments on these proposals have been requested by March 20, 1981, and should be directed to Normand R. V. Bernard, Federal Reserve Building, 20th Street and Constitution Avenue, N.W., Washington, D.C. 20551, with reference to Docket No. D-0017.

Regulation D: Amendment Assists Small Depository Institutions with Quarterly Reporting

The Federal Reserve Board has amended Regulation D (Reserve Requirements of Depository Institutions) in order to aid small depository institutions in complying with quarterly deposit reporting and reserve maintenance procedures.

One of the two actions taken gives nonmember institutions a once-only, eight-week lag between the end of their first reserve computation period (January 15-21) and the date on which reserves must be maintained (March 19). This lag changes the staggered reserve computation and maintenance schedule. Under the quarterly reporting procedure, reporting institutions are divided into three groups that report and maintain reserves a month apart. The February deposit report has been eliminated, with staggered reporting to begin in March instead of February.

The second action by the Board provides quarterly reporters a lag of 22 days between the end of the reserve computation period and the start of the reserve maintenance period. This applies to both member and nonmember institutions.

Now Available

Recently issued Federal Reserve circulars, speeches, statements to Congress, publications, etc., may be obtained by contacting the Bank and Public Information Department, Federal Reserve Bank of Dallas, Station K, Dallas, Texas 75222, unless indicated otherwise. Requests for circulars should specify the circular numbers.

Circulars

Establishment of International Banking Facilities. 15 pp. Circular No. 81-1 (January 2, 1981).

Regulation K—International Banking Operations—and Regulation Y—Bank Holding Companies and Change in Bank Control: Notice of Final Rulemaking Relating to Nonbanking Activities of Foreign Bank Holding Companies and Foreign Banks. 11 pp. Circular No. 81-2 (January 5, 1981).

Title 12—Chapter XII—Interest on Deposits: Proposed Rules Affecting IRA and Keogh Savings Plans, the Effective Date of Ceiling Interest Rates on the 26-Week Money Market Certificate (MMC) and 2½ Year or Longer Small Saver Certificate (SSC), and the Penalty for Early Withdrawal from a Time Deposit in the Event of the Depositor's Bankruptcy; Final Rules Affecting the Penalty for Early Withdrawals from an IRA or Keogh Retirement Time Account and a Plan for Phasing Out Finders Fees. 24 pp. Circular No. 81-3 (January 8, 1981).

Amendment to Regulation D [Reserve Requirements of Depository Institutions] (Small Depository Institution Reporting). 10 pp. Circular No. 81-6 (January 9, 1981). 9, 1981).

Quarterly Reserve Reporting [Edge Act and Agreement corporations and offices]. 1 p. Circular No. 81-7 (January 12, 1981).

Rules of Procedures: Policy Statement Relating to the Handling of Protested Applications and Technical Amendments Concerning Publication Requirements of Application Notices. 10 pp. Circular No. 81-9 (January 14, 1981).

Proposed Policy Statement [on Disposition of Credit Life Insurance Income]. 5 pp. Circular No. 81-10 (January 15, 1981).

Public Disclosure [Request for Comments on the Feasibility and Usefulness of Requiring Depository Institutions Which Make Small Business Loans to Compile and Publicly Disclose Information Regarding Such Loans]. 7 pp. Circular No. 81-11 (January 15, 1981).

Amendment to Regulation E [Electronic Fund Transfers]. 4 pp. Circular No. 81-12 (January 15, 1981).

Pricing and Access to Federal Reserve Services. 21 pp. Circular No. 81-15 (January 19, 1981).

Regulations G, T, U and X [Governing securities credit transactions]: Extension of the Expiration Date of Forms. 1 p. Circular No. 81-17 (January 21, 1981).

Nonbank Depository Institutions Advisory Group. 1 p. Circular No. 81-19 (January 22, 1981).

Amendment to Regulation D [Reserve Requirements of Depository Institutions] (Small Depository Institutions Reporting). 4 pp. Circular No. 81-21 (January 23, 1981).

Functional Cost Analysis Program. 1 p. Circular No. 81-22 (January 26, 1981).

Amendment to Regulation E: Electronic Fund Transfers. 1 p. Circular No. 81-23 (January 27, 1981).

Noncash Services. 1 p. Circular No. 81-25 (January 30, 1981).

Speeches and Statements

Statement by **Paul A. Volcker** before the **Committee on Banking, Housing, and Urban Affairs,** U.S. Senate. 17 pp., including attachments. January 7, 1981.

Remarks by **Paul A. Volcker** before the **Annual Meeting of the American Farm Bureau Federation,** New Orleans, Louisiana. 12 pp. January 12, 1981.

Statement by **Paul A. Volcker** before the **Committee on Appropriations,** U.S. Senate. 8 pp. January 27, 1981.

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