Treasury launches new TT&L system

Deposits at banks to earn interest

The U. S. Treasury is initiating a new Treasury tax and loan system that will enable it to earn interest on its deposits at commercial banks. The new system, called the Treasury Tax and Loan Investment Program, will begin functioning in early June or shortly thereafter.

Under the new system, the Treasury will also begin paying fees to banks for performing certain services for which direct payment had not been made in the past. Banks will receive fees for accepting federal tax deposits and servicing tax and loan accounts, and issuing Series E savings bonds. In addition, fees for redeeming savings bonds will be increased.

Legislation establishing the Treasury's authority to earn interest on commercial bank deposits was signed into law last fall. The legislation also permits savings and loans and credit unions to participate in the TT&L system.

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'Note' and 'remittance' options offered

The following information is based on proposed rules relating to Treasury tax and loan accounts. As of this printing, final rules had not been published by the Treasury.

Choice affects handling of funds

The Treasury's new TT&L Investment Program makes no change in the federal tax deposit system. Taxpayers may still deposit federal taxes with authorized depositaries which will follow existing procedures for forwarding documentation to the appropriate Federal Reserve Bank and Internal Revenue Service Center.

However, the new program does affect the handling of deposited tax funds. Banks may participate in the program under either of two options–the "note option" or the "remittance option." How a bank handles deposited funds depends on which option the bank chooses.

Remittance option

A bank that chooses the remittance option must forward, at the close of business each day, an advice of credit to its Reserve Bank reporting all credits made to its tax and loan account during the day. Prior to crediting its TT&L account, the bank must pledge acceptable collateral security, as under current procedures.

The Reserve Bank automatically charges the depositary's reserve account, or a member correspondent's reserve account, the total shown on the advice of credit. Thus, under the remittance option, the bank acts basically as a collection agent, collecting tax deposits from the taxpayer and relaying them to the Treasury's account at a Reserve Bank.

Note option

Banks that choose the note option must forward an advice of credit each day just as remittance option banks must.

However, at the opening of business each day, a note option bank must charge (debit) its TT&L account for the credits processed the previous day and must credit the total to a note account. The daily credit to the bank's note account constitutes an automatic purchase of funds from the Treasury.

Note option banks must fully collateralize both TT&L and note account funds.

FRB computes balance, interest

The Reserve Bank is responsible for computing the average daily balance in the depositary's note account and the amount of interest due on the note. Calls for repayment of funds from the bank's note account will be made by the Reserve Bank through the same procedures currently used.

Banks receive fees for services

Both remittance option and note option banks will receive a 50-cent fee for each Federal Tax Deposit form processed. In establishing this fee, the Treasury considered the service banks perform in accepting federal tax deposits together with the cost of servicing their tax and loan accounts.

Each month, the Reserve Bank will notify each depositary of the total fees earned during the previous month and, for note option banks, the amount of interest due the Treasury. The Reserve Bank will then pay the fees and collect the interest by making charges or credits to the various depositaries' reserve accounts or member correspondents' reserve accounts.

Banks will also receive fees for issuing Series E savings bonds and fees for redeeming savings bonds will be increased. Payment of these fees will be made directly by the Treasury.

Repurchase agreement rate to be used

According to the proposed rules, the interest rate that note option banks will be charged for use of funds acquired through the TT&L Investment Program will be the prevailing rate on repurchase agreements. The Treasury felt this rate provides a reasonable return on its funds and, at the same time, fairly represents the value of the funds to the depositaries.

Because the program enables the Treasury to earn interest on funds deposited in commercial bank note accounts, the Treasury plans to keep a much larger portion of its operating cash in commercial banks than it has in recent years and it expects that the average life of those deposits will increase considerably.

During the year ending September 1977, balances in TT &L accounts averaged about $1.5 billion while balances in the Treasury's accounts at Reserve Banks averaged about $8 billion. The Treasury anticipates that under the new program these proportions will be, roughly, reversed. The life of Treasury deposits at commercial banks has averaged about 2 1/2 days in recent years. If the total amount of Treasury operating cash remains the same, the Treasury expects the average life of deposits to increase to about 10 days.

All depositaries to be redesignated

Every bank authorized to maintain a TT&L account will be automatically redesignated a depositary on the date the new rules become effective. However, each depositary must file an "Election of Option" form (to be supplied within the next few weeks) with its Reserve Bank indicating whether it chooses the note option or the remittance option. Banks not submitting an Election of Option form by a date yet to be specified will be designated remittance option depositaries.

Fed to conduct TT&L seminars

Seminars to be offered throughout district

The Federal Reserve Bank of St. Louis will present seminars on the Treasury's new TT&L system in April and May in St. Louis, Memphis, Louisville and Little Rock.

The seminars will consist of a 45-minute presentation and slide show, followed by a question and answer-discussion session.

TT&L depositaries will be notified of the exact date and time of the seminar in their area and they may obtain additional information by contacting the Bank's securities departments in St. Louis, Little Rock, Louisville or Memphis.

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The Federal Reserve Bank of St. Louis is solely responsible for the contents of this publication. The publication does not necessarily represent the official or unofficial views of the Board of Governors of the Federal Reserve System.

Tips on consumer regulations

Quick answers by phone

Member banks needing quick answers to questions relating to consumer regulations are invited to phone a St. Louis Reserve Bank consumer affairs specialist. The toll free number for calls originating in Missouri is 800-392-7237. For calls originating from any other point in the district, the number is 800-325-7517.

Banks can become reporting agencies

Banks that provide other credit granting institutions too much information on their depositors and borrowers can become subject to regulations that apply to consumer reporting agencies.

Generally, a bank may report its actual experience with a customer's account without becoming a reporting agency. However, a bank runs the risk of being defined as a reporting agency if it reports, for example, information obtained in the process of determining the creditworthiness of a loan applicant.

New address for flood map orders

HUD has announced that EDS Federal Corporation is now the agent through which all lenders should order maps of flood hazard areas. Orders should be mailed to:

The National Flood Insurance Program
P. O. Box 34294
Bethesda, Maryland 20034

Prior to January 1, maps were ordered through servicing companies scattered across the country.

The Federal Insurance Administration also maintains a toll free number banks may call with questions about the flood insurance program: 800-638-6620.