FDIC
FEDERAL DEPOSIT INSURANCE CORPORATION

NEWS RELEASE

FOR IMMEDIATE RELEASE PR-9-86 (1-27-86)

FDIC PROPOSES TO REVISE REGULATIONS ON INTEREST PAYMENTS

The Board of Directors of the Federal Deposit Insurance Corporation today proposed changes in certain of its regulations pertaining to the prohibition against paying interest on demand deposits.

The changes are being proposed due to the expiration of the Depository Institutions Deregulation Committee (DIDC) and its rules on April 1, 1986. Both the FDIC and the Federal Reserve Board must substitute appropriate rules by that date. The FDIC rules will apply only to state-chartered banks that are not members of the Federal Reserve System.

The FDIC proposal includes two alternative regulations, the Revision and the Alternative Rule. The Revision generally conforms to the Federal Reserve Board's proposed Regulation Q, which extends the existing rules in this area. The FDIC's Alternative Rule is somewhat simpler than the proposed Regulation Q.

The main difference between the proposed rules is their definition of demand deposit. The Revision draws the line for demand deposits at the seven-day mark, that is, it includes any deposit that is payable on demand or that has a minimum maturity or minimum notice period of less than seven days. The term "demand deposit" also includes any account that otherwise satisifies the DIDC's standard for a Money Market Deposit Account (MMDA), but which allows the depositor to exceed the transfer limits on MMDAs. Currently the DIDC allows depositors to have up to six transfers per month from an MMDA, of which three may be by means of a check.

By contrast, the Alternative Rule defines demand deposit as any deposit that the depositor may withdraw on demand as a matter of legal right. The Alternative Rule effectively allows any depositor--including a business

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enterprise--to hold nondemand (interest-bearing) accounts that have unlimited checking powers.

The FDIC is seeking comment on its proposals and specifically seeks a full discussion of which rule it should adopt. Interested individuals must send their comments no later than thirty days after the proposed regulations are published in the Federal Register to Hoyle L. Robinson, Executive Secretary, FDIC, 550 17th Street, N.W., Washington, D.C. 20429.

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Attachments

Distribution: Insured State Nonmember Banks (Commercial and Mutual)