

Depository Institutions Deregulation And Monetary Control Act of 1980
Federal Reserve Bank of Boston



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To All Financial Institutions in the First Federal Reserve District:

On March 31, 1980, President Carter signed into law the Depository Institutions Deregulation and Monetary Control Act of 1980, the most important federal legislation relating to the financial community since the 1930s. The act has nine titles covering a wide range of subjects, including reserve requirements, access to and pricing of Federal Reserve services, a phaseout of Regulation Q and new powers for thrift institutions. This law will affect the business of all types of financial institutions in New England. Accordingly, we have furnished this summary of the act for your information.

This booklet is based on a summary prepared by the staff of the Board of Governors. The summary should serve as an outline of the law's provisions.

The Federal Reserve and other regulatory agencies, taking into account the complexity of the law and the magnitude of the changes it creates, are engaged in the preparation of policy and operating guidelines. As the statutory provisions take effect, the Federal Reserve will be issuing regulations and operating letters to carry out the requirements of the law. These materials will include names of individuals at this Reserve Bank who may be contacted for your questions and comments.

Frank E. Morris
President
Federal Reserve Bank of Boston

Title I - Monetary Control Act of 1980

Reporting Requirements

- Requires all depository institutions to make reports of their liabilities and assets as the Federal Reserve Board may determine to be necessary or desirable.
- Requires that the reports be made directly to the Board in the case of member banks and in the case of other depository institutions whose reserve requirements exceed zero.
- Provides that the reports are to be made through the FDIC, the FHLBB, the NCUAB, and state officers and agencies as appropriate for other depository institutions.

Reserve Requirements

- Requires each depository institution (banks, savings banks, S&Ls and credit unions) to maintain reserves against its transactions accounts in the ratio of 3 percent for that portion of its total transactions accounts of \$25 million or less. (Transactions account is defined to include demand deposits, NOW accounts, telephone transfers, ATS and share drafts.)

- Requires each depository institution to maintain reserves in the ratio of 12 percent-or in such other ratio as the Board may prescribe within a range of 8-14 percent-for that portion of its total transactions accounts in excess of \$25 million.
- Requires each depository institution to maintain reserves against its nonpersonal time deposits in the ratio of 3 percent-or in such other ratio as the Board may prescribe within a range of 0-9 percent.
- Directs the Board to index the \$25 million breakpoint on transactions balances by issuing a regulation by December 31 of each year, beginning in 1981, which would increase or decrease the breakpoint by 80 percent of the percentage increase or decrease in transactions accounts of all depository institutions which occurred during the 12 month period immediately preceding June 30 of that year.
- Permits the Board upon an affirmative vote of five of its members to impose reserve requirements on any liability of depository institutions and outside the limitations on ratios as otherwise prescribed, for a period of up to 180 days. These reserve requirements can be reviewed for additional 180 day periods.
- Supplemental Reserve. Permits the Board, upon an affirmative vote of five members, to impose an additional reserve requirement on every depository institution of not more than 4 percent of its transactions accounts. The supplemental reserve requirement may be imposed only if:
 - the sole purpose is to increase the amount of reserves to a level essential for the conduct of monetary policy,
 - it is not imposed for the purpose of reducing the cost burdens resulting from the basic reserve requirements,
 - it is not imposed for the purpose of increasing the amount of balances needed for clearing purposes, and
 - the total amount of basic reserves required at the time it is imposed is not less than the amount of reserves that would be required if the initial ratios for the basic reserves (12 percent on transactions balances and 3 percent on nonpersonal time) were in effect.
- Provides that the supplemental reserve shall be maintained by the Federal Reserve Banks in an Earnings Participation Account, and it shall receive earnings during each calendar quarter at a rate not more than what the Federal Reserve's securities portfolio earned during the previous calendar quarter.
- Terminates the supplemental reserve automatically at the close of the first 90 day period during which the average amount of basic reserves is less than the amount that would be required if the initial ratios on basic reserves were in effect.
- Permits reserves to be imposed on Eurodollar borrowings and nonmember foreign branches, subsidiaries and international banking facilities to the same extent as they are imposed on foreign branches, subsidiaries and IBFs of member banks. The Board may impose reserves
- Exempts deposits payable only outside the United States, i.e., banks in Puerto Rico, from the reserve requirement imposed under this Act. But, Eurodollar reserve requirements may be imposed on such deposits.

- Entitles any depository institution that holds transactions accounts or nonpersonal time deposits to the same discount and borrowing privileges as member banks.
- Provides an 8 year phase-in of reserve requirements for nonmember depository institutions. For each 12-month period during the 8 years, the amount of reserves maintained would increase by one-eighth of the total reserves required.
- Specifies that the 8 year phase-in would not apply to any category of accounts or deposits authorized by Federal law after the date of enactment of the Monetary Control Act, e.g., NOW accounts other than those already authorized in New England, New York and New Jersey.
- Provides for a 4 year phase-down of reserve requirements for member banks.
- Provides for a 4 year phase-in of reserve requirements for a bank which becomes a member bank during the 4 years beginning on the effective date of the Act.
- Requires any institution which was a member bank on July 1, 1979, and which withdrew from membership in the Federal Reserve System before the date of enactment of this Act, to maintain reserves beginning on the date of enactment of this Act in an amount equal to what would be required if it were a member bank.
- Exempts from reserve requirements any financial institution which is organized solely to do business with other financial institutions, does not do business with the general public and is owned primarily by the financial institutions with which it does business.
- Reserve requirements are satisfied by maintaining vault cash or reserve balances at a Federal Reserve Bank. Reserves of nonmember depository institutions may be passed to the reserve bank through a correspondent or a Federal Home Loan Bank or the Central Liquidity Facility.
- Vault cash may be used to satisfy the supplemental reserve requirement but shall be excluded in any computation of earnings.
- Balances maintained to meet reserve requirements may be used to satisfy liquidity requirements imposed under other provisions of Federal or State law.
- Exempts notes that are held in the vaults of the Federal Reserve Banks from collateral requirements; expands the kinds of collateral for Federal Reserve notes to include obligations of, or fully guaranteed as to principal and interest by, a foreign government or agency of a foreign government.
- Limits member banks to keeping on deposit with any depository institution that does not have access to the discount window no more than 10 percent of its own paid-up capital and surplus.
- Removes the 10(b) penalty rate on advances on ineligible paper.

Pricing for Services

- Requires the Board to publish for comment a set of pricing principles and a proposed schedule of fees for Federal Reserve Bank services no later than the first day of the sixth month after the date of enactment.
- Requires the Board to begin to put into effect a schedule of fees for services no later than the first day of the 18th month after the date of enactment.
- The services covered by the fee schedule are:

- currency and coin services,
- check clearing and collection services,
- wire transfer services,
- automated clearing house services,
- settlement services,
- securities safekeeping services,
- Federal Reserve float, and
- any new service which the Federal Reserve offers.

Effective Dates

- This Act shall take effect on the first day of the sixth month which begins after the date of enactment except that:
 - depository institutions holding transactions accounts will have access to the discount window on the date of enactment, and
 - institutions that withdrew from the Federal Reserve on or after July 1, 1979, will have to keep reserves at the same level as member banks beginning on the date of enactment.

Title 11 - Depository Institutions Deregulation Act of 1980

- Purpose: To provide for an orderly phase-out and ultimate elimination of interest rate ceilings by extending the authority to impose such ceilings for 6 years, subject to specific standards designed to ensure a phase-out to market interest rates.

Establishment and Authority of Committee

- Establishes the Depository Institutions Deregulation Committee consisting of the Secretary of the Treasury, the Chairman of the Board of Governors of the Federal Reserve System, the Chairman of the FDIC, the Chairman of the FHLBB and the Chairman of the NCUAB as voting members. The Comptroller of the Currency is a non-voting member of the committee.
- Transfers to the Depository Institutions Deregulation Committee the authority to prescribe rules governing the payment of interest and the establishment of classes of deposits or accounts including limitations on the maximum rates of interest.

Directive to the Committee

- Requires the Deregulation Committee to exercise its authority to provide for the orderly phase-out and ultimate elimination of interest rate ceilings as rapidly as economic conditions warrant.
- Provides that the phase-out may be achieved by:
 - the gradual increase in ceilings applicable to all existing categories of accounts;
 - the complete elimination of ceilings applicable to particular categories of accounts;

- the creation of new categories not subject to ceilings or with ceilings set at market rates;
 - any combination of the above methods, or any other method.
- Requires the Deregulation Committee to work toward providing depositors with a market rate of return with due regard for the safety and soundness of depository institutions.
 - Specifies that the Deregulation Committee shall increase all interest rate ceilings to market rates as soon as feasible but shall not increase the ceilings above market rates during the 6-year period beginning on the date of enactment.

Targets

- Not later than 18 months after the date of enactment the Deregulation Committee shall vote on increasing the ceiling applicable to passbook accounts by at least 1/4 percentage point.
- The Deregulation Committee shall vote on increasing the interest rate ceilings applicable to all categories of deposits and accounts by at least 1/2 a percentage point not later than the end of each of the third, fourth, fifth and sixth years after the date of enactment.
- The Deregulation Committee may adjust the ceilings "applicable to all categories of deposits and accounts to rates which are higher or lower than those which would apply if the targets set forth in this section were achieved."

Reports

- Each member of the Deregulation Committee shall separately report to Congress annually regarding the economic viability of depository institutions. Each report shall contain recommendations for legislative or administrative actions as the member considers necessary to maintain the economic viability of depository institutions.

Terminations

- Effective 6 years after the date of enactment of this Act:
 - the statutory differential is repealed;
 - the specific authorities vested in the Federal Reserve, the FDIC, the FHLBB and the NCUAB to impose interest rate ceilings on deposits are repealed.
- All agency rules and regulations issued by the agencies with respect to deposit interest rate ceilings remain in effect until repealed, amended, or superseded by a regulation of the Deregulation Committee.

Title III - Consumer Checking Account Equity Act of 1980

- Permits banks to provide automatic transfer services from savings to checking accounts.

- Permits NOW accounts nationwide at all depository institutions for individuals or organizations operated primarily for religious, philanthropic, charitable, educational or similar not for profit purposes.
- Permits the establishment of remote service units by S&Ls for the purpose of crediting and debiting savings accounts, crediting payments on loans, etc.
- Authorizes all federally insured credit unions to offer share draft accounts.
- Increases Federal deposit insurance from \$40,000 to \$100,000 at commercial banks, savings banks, savings and loan associations and credit unions.
- Changes the assessment formula of the FDIC so that the ratio of the Corporation's capital account to estimated insured deposits will not be less than 1.10 percent and not more than 1.40 percent.

Credit Union Amendments

- Authorizes Federal credit unions to make residential real estate loans on cooperatives; and makes other technical amendments to the Federal Credit Union Act.
- Permits credit unions to increase the loan rate ceiling from 12 percent to 15 percent. The NCUAB may establish a higher interest ceiling for periods not to exceed 18 months after consultation with the appropriate committees of Congress and the Federal financial institution regulatory agencies if it determines that money market interest rates have risen over the preceding 6-month period and that prevailing interest rate levels threaten the safety and soundness of individual credit unions.

FHLB Settlement and Processing of Drafts

- Permits the FHLBB to authorize the Federal Home Loan Banks to be drawees of, and to engage in or to be agents for the collection and settlement of checks, drafts, CDs or any other negotiable or non-negotiable items or instruments of payment drawn on or issued by members of any Federal Home Loan Bank or institutions eligible for membership.
- Requires a Federal Home Loan Bank to make reasonable charges for clearing services consistent with the principles set forth in the Federal Reserve Act on pricing for services.
- Permits a Federal Home Loan Bank to utilize the services of, or act as agent for or be a member of, a Federal Reserve Bank, clearinghouse, or another public or financial institution or other agency in the exercise of these clearing and settlement functions.
- Permits the NCUAB to authorize the Central Liquidity Facility or its Agent members to engage in the same collection and settlement functions as described above with respect to the Federal Home Loan Banks.

Title IV - Powers of Thrift Institutions and Miscellaneous Provisions

- Authorizes S&Ls to invest up to 20 percent of assets in consumer loans, commercial paper and corporate debt securities.

- Permits S&Ls to invest in shares or certificates of open-end investment companies registered with the SEC (e.g., money market funds) if the portfolio of the fund is restricted to investments that S&Ls may make directly.
- Expands the authority of S&Ls to make real estate loans by removing the geographic area restriction on lending, substituting a 90 percent loan-to-value limit in place of the existing \$75,000 limit, and removing the first lien restriction on residential real estate loans. Also, expands the authority of S&Ls to make acquisition, development and construction loans.
- Authorizes S&Ls to issue credit cards, extend credit in connection with credit cards and engage in credit card operations.
- Authorizes S&Ls to exercise trust and fiduciary powers under restrictions and protections similar to national banks.
- Authorizes a State stock S&L to convert to a Federal stock charter provided that it existed in stock form for not less than the 4 years preceding the date of enactment of this Act.
- Permits S&Ls to include shares of open-end management investment companies among the assets eligible to satisfy liquidity requirements.

Study of Mortgage Portfolios

- Requires the President to convene an interagency task force consisting of Treasury, HUD, the FHLBB, the Federal Reserve, the FDIC, the Comptroller of the Currency and the NCUAB to conduct a study and make recommendations within three months regarding the options available:
 - to provide balance to the asset-liability management problems inherent in the thrift portfolio structure;
 - to increase the ability of thrift institutions to pay market rates of interest in periods of rapid inflation and high interest rates;
 - to assist thrifts in times of economic difficulties.

Mutual Capital Certificates

- Authorizes S&Ls to issue mutual capital certificates which shall constitute part of the general reserve and net worth of the issuing institution. They would be subordinate to savings accounts, savings certificates and debt obligations but would be entitled to the payment of dividends and may have a fixed or variable dividend rate.

Mutual Savings Banks

- Authorizes Federal mutual savings banks to make commercial, corporate and business loans except that (1) not more than 5 percent of the assets of a bank may be so loaned, and (2) the loans must be made within the State or within 75 miles of the home office. Federal mutual savings banks may also accept demand deposits in connection with a commercial, corporate or business loan relationship.

Insurance Reserves

- Changes the Federal Insurance Reserve for S&Ls. Instead of the existing 5 percent requirement, the FHLBB would set the amount within a range of 3 to 6 percent. (Note: It is expected that the ratio will be set initially at 4 percent.)

Title V - State Usury Laws

- Eliminates State mortgage usury ceilings and restrictions on discount points, finance charges and other charges with respect to residential mortgage loans on real property or mobile homes unless a State adopts a new usury ceiling prior to April 1, 1983, or adopts new limitations on discount points or other charges at any time. The elimination of the usury ceiling on mobile home loans will not apply unless the loan is in compliance with consumer protection regulations which will be prescribed by the FHLBB.
- Eliminates any State restrictions on the rate or amount of interest that may be paid on deposits, or accounts, at depository institutions.
- Preempts State usury ceilings on business and agricultural loans in excess of \$25,000 and permits an interest rate of not more than 5 percent above the Federal Reserve discount rate, including any surcharge, on 90 day commercial paper. This provision expires on April 1, 1983, or at an earlier date if a State adopts a law reinstating a State ceiling.
- Permits insured State banks, branches of foreign banks, S&Ls, credit unions and small business investment companies to have the same privilege as national banks and charge interest on loans at a rate of 1 percent above the Federal Reserve discount rate.

Title VI - Truth in Lending Simplification

General

- Simplifies disclosures by reducing the number of disclosures that must be made and by segregating them from other information.
- Reduces civil liability -statutory penalties attach only to "material disclosures" and creditor given 60 days to remedy error.
- Authorizes agencies to require reimbursement to customers where actual annual percentage rate or finance charge exceeds that disclosed.
- Eliminates agricultural credit from TIL coverage.
- Requires the Board to issue model forms and clauses, which will protect creditors from liability. Form changes are permitted only once a year (October 1).
- Provides that there is only *one* creditor per transaction-the one to whom the obligation is payable on its face.
- Board shall decide whether tolerances for numerical disclosures other than APR are necessary.

- Provides that in a residential mortgage transaction subject to the Real Estate Settlement Procedures Act, a creditor must make good faith estimates of all required disclosures within three business days of written application.

Open-end Disclosures

- Simplifies identification of transactions on periodic statements by small creditors (those having fewer than 15,000 accounts).
- Requires disclosure of the fact that no "free ride" period is provided, if applicable.
- Allows creditors to send a statement of billing error rights and obligations to customers once rather than twice a year.

Closed-End Disclosures

- Eliminates itemization of the finance charge and the amount financed, but gives consumers the right to ask for and receive an itemization of the amount financed.
- Requires the use of simple English descriptive phrases of key terms, such as "finance charge" and "annual percentage rate."
- Requires disclosure of total finance charge and total of payments in all transactions, thus eliminating the exemption for real property transactions.

Annual Percentage Rate and Finance Charge

- Provides that an APR is accurate if within a tolerance of 1/8 percent above or below the actual rate.
- Permits the Board to allow a greater APR tolerance where irregular payments are involved.
- Requires the Board to compile and distribute information on APRs on representative types of non-sale credit on a demonstration basis.
- Clarifies definition of finance charge to include only those charges not made in a comparable cash transaction.

Rescission

- Exempts advances under an open-end credit plan from right of rescission if the right given when plan opened and credit limit increased (for a 3-year period only, i.e., sunset provision.)
- Extends to 20 days the period during which a creditor must refund a consumer's money and terminate a security interest following receipt of a notice of rescission.
- Extends the right to rescind to some mobile home transactions, even where they are not real property.

Miscellaneous

- Requires the Board to examine State laws to determine whether they are inconsistent with TIL and annulled, or whether they are substantially the same and replace TIL.
- Reduces the required information in credit advertisements; Board may require more.
- Clarifies the liability of assignees.
- Provides that these amendments will take effect 2 years from enactment and that all regulations and forms will be promulgated 1 year after enactment. However, creditors may take advantage of statutory changes as soon as the Board has adopted implementing regulations.

Title VII - Amendments to the National Banking Laws

- Authorizes the Comptroller to permit national banks to hold real estate up to an additional 5 years beyond the current 5 year allowable period, if the bank has made a good faith effort to dispose of the property during the first 5 years or disposal within the 5-year period would be detrimental to the bank. The bank may expend funds for the development and improvement of this real estate to recover its total investment subject to limitations and conditions of the Comptroller.
- Amends the Bank Holding Company Act to permit the Federal Reserve to extend the deadline for the divestiture of real estate or real estate interests from December 31, 1980, to December 31, 1982. Before granting an extension, the Board must consider whether the company has made a good faith effort to divest and whether the extension is necessary to avert substantial loss.
- Removes the 6 percent limitation on national bank preferred stock dividends.
- Grants the Comptroller the authority to revoke the trust powers of a national bank under certain conditions.
- Authorizes the Comptroller to proclaim a legal holiday for national banks in a State or part of a State when there is a national calamity riot or emergency condition. When a State designates a day as a legal holiday for State banks, it will be a legal holiday for national banks unless the Comptroller by written order permits national banks to remain open.
- Allows dissenting shareholders to select an appraiser by majority vote rather than a unanimous vote when a national bank plans to convert, merge or consolidate into a State bank.
- Authorizes the Comptroller to delegate any of his powers.
- Grants the Comptroller rulewriting authority to carry out his responsibilities except where that has been expressly and exclusively granted to another regulatory agency and the authority does not apply to the McFadden Act or the Glass-Steagall Act.
- Deletes the requirement that the Comptroller examine national banks 3 times every 2 years and allows the Comptroller to examine national banks as often as he deems necessary.
- Authorizes the Comptroller, upon the request of the Federal Reserve, to assign examiners to examine foreign operations of State member banks.
- Amends the requirement that a director of a national bank own stock in the bank by allowing the director the alternative to owning stock in the bank holding company controlling the bank.

- Permits a national bank to purchase shares of bank stock for its own account if the bank is owned exclusively by other banks and is engaged exclusively in providing bank services for other banks and has FDIC insurance. The amount of such stock held by a national bank may not exceed 10 percent of its capital and surplus, and a national bank may not acquire more than 5 percent of any class of voting stock of such bank.
- Prohibits the establishment or acquisition of a trust company across State lines until October 1, 1981 (unless State law specifically permits acquisitions by out-of-State holding companies). The prohibition does not apply to any acquisition approved by the Board on or before March 5, 1980, and if the trust company opened for business and was operating on or before March 5, 1980.
- Prohibits the Federal Reserve from rejecting the application for the formation of a one bank holding company solely because the transaction involves a bank stock loan with a repayment period of up to 25 years. The Board shall consider transactions involving bank stock loan of 12 years or more on a case-by-case basis and no transactions shall be approved if the Board believes the safety or soundness of the bank may be jeopardized.

Title VIII - Financial Regulation Simplification Act of 1980

- Finds that many regulations issued by the Federal Reserve, the FDIC, the Comptroller of the Currency, the FHLBB and the NCUAB often impose costly, duplicative and unnecessary burdens on both financial institutions and consumers. Regulations should be simple, clearly written and not impose unnecessary costs and paperwork burdens on institutions or consumers.

Title IX - Foreign Control of United States Financial Institutions

- Prohibits the Federal Regulatory Agencies from approving any application relating to the takeover (defined as the acquisition of 5 percent or more of the institution's stock or assets) of any domestic bank, S&L or mutual savings bank by a foreign organization or individual until *July 1, 1980*, with these *exceptions*:
 - The acquisition is necessary to prevent the bankruptcy or insolvency of the U.S. financial institution.
 - The application was initially submitted for filing on or before March 5, 1980.
 - The U.S. financial institution has deposits of less than \$ 100 million.
 - The application relates to a foreign person's intrafirm reorganization of its interests in a U.S. institution.
 - The application relates to the takeover of a U.S. financial institution which is already owned or controlled by foreign interests.
 - The application relates to the takeover of a U.S. financial institution which is a subsidiary of a BHC under an order to divest by December 31, 1980.