AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

106TH CONGRESS, 2d Session | HOUSE OF REPRESENTATIVES | REPORT 106–568

# BUSINESS CHECKING MODERNIZATION ACT

APRIL 11, 2000.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. LEACH, from the Committee on Banking and Financial Services, submitted the following

# R E P O R T

[To accompany H.R. 4067]

[Including cost estimate of the Congressional Budget Office]

The Committee on Banking and Financial Services, to whom was referred the bill (H.R. 4067) to repeal the prohibition on the payment of interest on demand deposits, and for other purposes, having considered the same, report favorably thereon with an amendment and recommend that the bill as amended do pass.

The amendment is as follows:

Strike out all after the enacting clause and insert in lieu thereof the following:

**SECTION 1. SHORT TITLE.**

This Act may be cited as the "Business Checking Modernization Act".

**SEC. 2. AMENDMENTS RELATING TO DEMAND DEPOSIT ACCOUNTS AT DEPOSITORY INSTITUTIONS.**

(a) INTEREST-BEARING TRANSACTION ACCOUNTS AUTHORIZED.—

(1) FEDERAL RESERVE ACT.—Section 19(i) of the Federal Reserve Act (12 U.S.C. 371a) is amended by inserting at the end the following: "Notwithstanding any other provision of this section, a member bank may permit the owner of any deposit, any account which is a deposit, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board may determine by rule or order), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account for purposes of this Act.".

(2) HOME OWNERS' LOAN ACT.—

(A) IN GENERAL.—Section 5(b)(1) of the Home Owners' Loan Act (12 U.S.C. 1464 (b)(1)) is amended by adding at the end the following new subparagraph:

"(G) TRANSFERS.—Notwithstanding any other provision of this paragraph, a Federal savings association may permit the owner of any deposit or share,

any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.".

(B) REPEAL.—Effective at the end of the 3-year period beginning on the date of the enactment of this Act, section 5(b)(1) of the Home Owners' Loan Act (12 U.S.C. 1464 (b)(1)) is amended by striking subparagraph (G).

(3) FEDERAL DEPOSIT INSURANCE ACT.—Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by adding at the end the following new paragraph:

"(3) TRANSFERS.—Notwithstanding any other provision of this subsection, an insured nonmember bank or insured State savings association may permit the owner of any deposit or share, any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.".

(b) REPEAL OF PROHIBITION ON PAYMENT OF INTEREST ON DEMAND DEPOSITS.—

(1) FEDERAL RESERVE ACT.—Section 19(i) of the Federal Reserve Act (12 U.S.C. 371a) is amended to read as follows:

"(i) [Repealed]".

(2) HOME OWNERS' LOAN ACT.—The 1st sentence of section 5(b)(1)(B) of the Home Owners' Loan Act (12 U.S.C. 1464(b)(1)(B)) is amended by striking "savings association may not—" and all that follows through "(ii) permit any" and inserting "savings association may not permit any".

(3) FEDERAL DEPOSIT INSURANCE ACT.—Section 18(g) of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended to read as follows:

"(g) [Repealed]".

(c) EFFECTIVE DATE.—The amendments made by subsection (b) shall take effect at the end of the 3-year period beginning on the date of the enactment of this Act.

**SEC. 3. INCREASED FEDERAL RESERVE BOARD FLEXIBILITY IN SETTING RESERVE REQUIREMENTS.**

Section 19(b)(2) of the Federal Reserve Act (12 U.S.C. 461(b)(2)) is amended—

(1) in clause (i), by striking "the ratio of 3 per centum" and inserting "a ratio not greater than 3 percent"; and

(2) in clause (ii), by striking "and not less than 8 per centum".

## BACKGROUND AND NEED FOR LEGISLATION

The Business Checking Modernization Act (the "Act") continues the efforts begun in the 102nd Congress to modernize the Federal banking laws by removing unnecessary and outmoded restrictions on the nation's depository institutions and financial markets and their consumers. Much like the restrictions imposed by the Glass-Steagall Act, recently amended in the Gramm-Leach-Bliley Act, the prohibition on paying interest on demand deposits is a depression-era law put into place in 1933 in the belief that such a restriction would help restore the health of the nation's depository institutions. While history suggests that this restriction may not have been necessary at that time, there is now wide-spread agreement that the restriction certainly has no validity in today's competitive marketplace.

Removing the prohibition on payment of interest on demand deposits has been under Congressional consideration for more than

20 years. Initially, the effect of not paying interest on demand deposits was minimal because of the low inflation environment that existed until the 1950's. As the markets and consumers became more sophisticated during a period of rising interest rates, and competition increased from money market funds, depository institutions found methods of providing their deposit customers compensation in the form of "implicit" interest in order to retain deposits. This "implict" interest took the form of consumers receiving free checking and other services at a low cost. As time passed, some institutions shifted funds on a regular basis into instruments that earned interest much like today's "sweep" programs. State savings banks created "NOW" accounts. In response to the piecemeal manner in which the prohibition was being eroded, Congress in 1980 authorized depository institutions to offer NOW accounts to consumers and charitable organizations. At the time NOW accounts were authorized, consideration was also given to completely lifting the prohibition on depository institutions paying interest on demand deposits. Given the significant changes taking place in the financial industry at the time because of interest rate deregulation on time and savings deposits as well as the authorization of NOW accounts for all depository institutions, it was decided to delay removal of the prohibition on paying interest on demand deposits.

With the 1980 authorization of NOW accounts for individuals and charitable organizations, the primary effect of the prohibition on payment of interest on demand deposits has been on businesses. Once again, the prohibition on businesses receiving interest on demand deposits has been eroded in a piecemeal fashion. Many business depositors earn interest in the form of a credit against service charges based on the size of their balance. In addition, depository institutions construct packages of services for businesses that offer loan or other products at reduced rates tied to the size of the balance in the account resulting in an implicit payment of interest. Also large or sophisticated depositors are able to minimize holdings in non-interest bearing accounts through "sweep" programs where deposits are swept into money market funds or repurchase agreements which provide a return on the amount invested. Smaller, less sophisticated, depositors though have been denied the same opportunities. Permitting the payment of interest on business demand deposits would result in clear, full, costing of services leading to more explicit competition.

It is important to recognize that the Act does not require depository institutions to pay any interest on demand deposits. Instead, the Act merely removes the prohibition on depository institutions paying explicit interest on demand deposits thereby providing institutions more flexibility in how they structure their accounts. As with consumer checking accounts today, institutions may offer a range of different business demand deposits including accounts on which no interest is paid and those on which interest is paid.

## PURPOSE AND SUMMARY

The purpose of this legislation is to eliminate the Federal prohibition on depository institutions paying interest on demand deposits. It is intended to permit depository institutions full flexibility to price their services as necessary to respond to a highly competitive

marketplace and to remove any legal restriction on paying interest on business checking accounts. Recognizing that current banking relationships between depository institutions and their business customers have been structured to provide for the receipt of imputed interest and may need to be renegotiated, the legislation provides for a three-year phase-in period. During that period, the legislation permits depository institutions to offer business customers checking accounts that allow the funds in the account to be swept into an interest-bearing account on a daily basis. With the repeal of the prohibition on direct payment of interest on commercial checking accounts three years after enactment, depository institutions will be allowed to offer their business customers a wide range of interest-bearing product options, including direct interest payments and internal and external sweep accounts of unlimited frequency, based upon market demands. The legislation also eliminates the minimum statutory ratios for reserves that depository institutions are required to maintain at the Federal Reserve Banks granting the Federal Reserve Board greater flexibility in setting reserve requirements.

## COMMITTEE CONSIDERATION AND VOTES

(Rule XI, Clause 2(l)(2)(B))

On March 29, 2000, the Committee met in open session to mark up H.R. 4067, the "Business Checking Modernization Act." During the markup, the Committee approved, by voice vote, an amendment to H.R. 4067. With a quorum being present, a motion to adopt and favorably report H.R. 4067, as amended, to the House was approved by voice vote.

## COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

## COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT FINDINGS

As provided for in clause 3(c)(4) of rule XIII of the Rules of the House of Representatives, no oversight findings have been submitted to the Committee by the Committee on Government Reform.

## CONSTITUTIONAL AUTHORITY

In compliance with clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Constitutional Authority of Congress to enact this legislation is derived from Article I, section 8, clause 1 (relating to the general welfare of the United States): Article I, section 8, clause 3 (relating to Congressional power to regulate commerce); Article 1, section 8, clause 5 (relating to the power "to coin money" and "regulate the value thereof"); and Article I, section 8, clause 18 (relating to making all laws necessary and proper for

carrying into execution powers vested by the Constitution in the government of the United States).

## NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of rule XIII of the Rules of the House of Representatives is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

## ADVISORY COMMITTEE STATEMENT

No advisory committees within the meaning of section 5(b) of the Federal Advisory Committee Act were created by this legislation.

## CONGRESSIONAL ACCOUNTABILITY ACT

The reporting requirement under section 102(b)(3) of the Congressional Accountability Act (P.L. 104–1) is inapplicable because this legislation does not relate to terms and conditions of employment or access to public services or accommodations.

## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE AND UNFUNDED MANDATES ANALYSIS

*H.R. 4067—Business Checking Modernization Act*

H.R. 4067 would repeal the prohibition on depository institutions paying interest on the demand deposits of their business customers. The repeal would take effect three years after the date of enactment. In the interim three-year period, H.R. 4067 would in effect authorize depository institutions to offer a new type of savings deposit. It would be allowed up to 24 transfers per month (more if the Federal Reserve allows) into a demand deposit, and it would be subject to reserve requirements. The bill would also provide the Federal Reserve with more flexibility in setting required reserve ratios on transactions accounts by removing the lower limits on the ranges of allowable ratios.

CBO estimates that the bill would have insignificant effects on both federal revenues and outlays. The bill could have the effect of increasing demand deposits at depository institutions, especially after three years when interest could be paid on demand deposits, but based on information provided by staff of the Board of Governors of the Federal Reserve System, CBO estimates that such an effect would not be significant. If the bill did have a significant effect on demand deposits, that could cause a significant increase in required reserves on deposit at the Federal Reserve, which would invest the reserves and remit the return to the Treasury as governmental receipts.

Allowing banks to pay interest on commercial checking accounts could reduce the profitability of some depository institutions. However, certain institutions may be able to retain deposits that would otherwise flow to other providers of financial services. Even if reduced profitability of some institutions did occur because they faced higher interest costs, their business depositors would earn greater profits. Overall profits and federal revenue, therefore, would not be affected.

Based on information from the Federal Deposit Insurance Corporation, CBO estimates that the bill would have no significant impact on the total balance of insured deposits or the likelihood that some institutions would fail and, therefore, no significant impact on federal spending.

## SECTION-BY-SECTION ANALYSIS

*Section 2. Amendments relating to demand deposit accounts at depository institutions*

Section 2(a) amends the Federal Reserve Act, the Home Owners' Loan Act, and the Federal Deposit Insurance Act to permit banks and thrifts to immediately on the date of enactment offer customers the ability to have a daily sweep—24 transfers a month—from an interest bearing account into their checking account. The Federal Reserve Board is given the authority to permit more than 24 transfers a month. This subsection also permits the Federal Reserve Board to determine that the interest-bearing account from which funds would be transferred is subject to reserve requirements.

Section 2(b) amends the Federal Reserve Act, the Home Owner's Loan Act, and the Federal Deposit Insurance Act to repeal the prohibition on the payment of interest on demand deposits.

Section 2(c) provides that the provisions of section 2(b) shall take effect at the end of the 3-year period beginning on the date of enactment.

*Section 3. Increased Federal Reserve Board flexibility in setting reserve requirements*

Section 3 amends the Federal Reserve Act to eliminate the minimum statutory ratios of 3% against the first $25 million in transactions accounts held at a depository institution and 8% against the amount above that threshold level leaving the Federal Reserve Board with greater flexibility in setting reserve requirements. The Committee recognizes that changing circumstances could warrant adjustments to required ratios in the future, possibly including reductions, but the greater flexibility granted the Federal Reserve Board is not intended to encourage the Board to reduce reserves to "zero." A positive level of required reserve balances is likely to continue to be helpful to the Federal Reserve in the implementation of monetary policy. For instance, the maintenance of reserve balances help guard against an undesirable increase in the volatility of the federal funds rate. It would be expected that the Federal Reserve Board, as part of its semi-annual Humphrey-Hawkins report or equivalent report to Congress, discuss any reasoning behind any adjustment in reserve requirements it makes.

Over the three-year interim period, the bill would have an insignificant effect on demand deposits because the new accounts would have limited appeal. Many depository institutions currently utilize sweep programs that regularly transfer amounts between savings accounts not subject to reserve requirements and demand deposits in order to minimize amounts in the non-interest-bearing, demand deposits of businesses that are subject to reserve requirements. Where depository institutions do not provide sweep accounts, many

businesses achieve the same effect through their own cash management programs. Since the new accounts would be subject to reserve requirements, they would likely pay a lower yield than the instruments utilized by sweep or cash management accounts.

The effect of allowing interest on business demand depositors would also be limited for the same reason. The interest earned on demand deposits would be less than that available on alternative instruments, which would be nearly as liquid. Some effect might be possible, especially for firms without sophisticated cash management programs with demand deposits in institutions without sweep programs, who might otherwise move their deposits to nonbank competitors. Such an effect, however, is not expected to cause significant budgetary effects.

CBO estimates no budgetary effect would occur from the provision providing the Federal Reserve with additional flexibility in setting required reserve ratios. The Federal Reserve is not currently limited by one of the two ranges affected, and its staff have indicated no policy change would be likely to occur economic environment.

Because H.R. 4067 would affect direct specifying or receipts, pay-as-you-go procedures would apply. However, CBO estimates that such effects would be insignificant. H.R. 4067 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act and would impose no costs on the budgets of state, local, or tribal governments.

The CBO staff contacts for this estimate are Mark Booth (for federal revenues), and Mark Hadley (for federal spending). This estimate was approved by Peter H. Fontaine, Deputy Assistant Director for Budget Analysis, and G. Thomas Woodward, Assistant Director for Tax Analysis

## CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill (which unless stated otherwise, are effective on the date of enactment), as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

## SECTION 19 OF THE FEDERAL RESERVE ACT

### BANK RESERVES

SEC. 19. (a) * * *

* * * * * * *

(b) RESERVE REQUIREMENTS.—

(1) * * *

* * * * * * *

(2) RESERVE REQUIREMENTS.—(A) Each depository institution shall maintain reserves against its transaction accounts as the Board may prescribe by regulation solely for the purpose of implementing monetary policy—

(i) in [the ratio of 3 per centum] *a ratio not greater than 3 percent* for that portion of its total transaction accounts of $25,000,000 or less, subject to subparagraph (C); and

(ii) in the ratio of 12 per centum, or in such other ratio as the Board may prescribe not greater than 14 per centum [and not less than 8 per centum], for that portion of its total transaction accounts in excess of $25,000,000, subject to subparagraph (C).

* * * * * * *

(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided,* That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further,* That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further,* That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed. Notwithstanding any other provision of this section, a member bank may permit withdrawals to be made automatically from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in connection with checks or drafts drawn upon the bank, pursuant to terms and conditions prescribed by the Board. *Notwithstanding any other provision of this section, a member bank may permit the owner of any deposit, any account which is a deposit, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board may determine by rule or order), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent*

*an account offered pursuant to this subsection from being considered a transaction account for purposes of this Act.*

* * * * * * *

**The amendment to this section, shall take effect 3 years after the enactment of this bill**

BANK RESERVES

SEC. 19. (a) * * *

* * * * * * *

[(i) No member bank shall, directly or indirectly, by any device whatsoever, pay any interest on any deposit which is payable on demand: *Provided,* That nothing herein contained shall be construed as prohibiting the payment of interest in accordance with the terms of any certificate of deposit or other contract entered into in good faith which is in force on the date on which the bank becomes subject to the provisions of this paragraph; but no such certificate of deposit or other contract shall be renewed or extended unless it shall be modified to conform to this paragraph, and every member bank shall take such action as may be necessary to conform to this paragraph as soon as possible consistently with its contractual obligations: *Provided further,* That this paragraph shall not apply to any deposit of such bank which is payable only at an office thereof located outside of the States of the United States and the District of Columbia: *Provided further,* That until the expiration of two years after the date of enactment of the Banking Act of 1935 this paragraph shall not apply (1) to any deposit made by a savings bank as defined in section 12B of this Act, as amended, or by a mutual savings bank, or (2) to any deposit of public funds made by or on behalf of any State, county, school district, or other subdivision or municipality, or to any deposit of trust funds if the payment of interest with respect to such deposit of public funds or of trust funds is required by State law. So much of existing law as requires the payment of interest with respect to any funds deposited by the United States, by any Territory, District, or possession thereof (including the Philippine Islands), or by any public instrumentality, agency, or officer of the foregoing, as is inconsistent with the provisions of this section as amended, is hereby repealed. Notwithstanding any other provision of this section, a member bank may permit withdrawals to be made automatically from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in connection with checks or drafts drawn upon the bank, pursuant to terms and conditions prescribed by the Board. Notwithstanding any other provision of this section, a member bank may permit the owner of any deposit, any account which is a deposit, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board may determine by rule or order), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent

an account offered pursuant to this subsection from being considered a transaction account for purposes of this Act.]

*(i) [Repealed]*

* * * * * * *

---

## SECTION 5 OF THE HOME OWNERS' LOAN ACT

**SEC. 5. FEDERAL SAVINGS ASSOCIATIONS.**

(a) * * *

* * * * * * *

(b) DEPOSITS AND RELATED POWERS.—

(1) DEPOSIT ACCOUNTS.—

(A) * * *

* * * * * * *

(B) A Federal [savings association may not—

[(i) pay interest on a demand account; or

[(ii) permit any] *savings association may not permit any* overdraft (including an intraday overdraft) on behalf of an affiliate, or incur any such overdraft in such savings association's account at a Federal reserve bank or Federal home loan bank on behalf of an affiliate.

* * * * * * *

*(G) TRANSFERS.—Notwithstanding any other provision of this paragraph, a Federal savings association may permit the owner of any deposit or share, any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.*

* * * * * * *

**The amendment to this section, shall take effect 3 years after the date of enactment of this bill**

**SEC. 5. FEDERAL SAVINGS ASSOCIATIONS.**

(a) * * *

* * * * * * *

(b) DEPOSITS AND RELATED POWERS.—

(1) DEPOSIT ACCOUNTS.—

(A) * * *

* * * * * * *

[(G) TRANSFERS.—Notwithstanding any other provision of this paragraph, a Federal savings association may per-

mit the owner of any deposit or share, any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.]

* * * * * * *

---

## SECTION 18 OF THE FEDERAL DEPOSIT INSURANCE ACT

SEC. 18. (a) * * *

* * * * * * *

(g)(1) * * *

* * * * * * *

*(3) TRANSFERS.—Notwithstanding any other provision of this subsection, an insured nonmember bank or insured State savings association may permit the owner of any deposit or share, any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.*

* * * * * * *

**The amendment to this section, shall take effect 3 years after the date of enactment of this bill**

SEC. 18. (a) * * *

* * * * * * *

[(g)(1) The Board of Directors shall by regulation prohibit the payment of interest or dividends on demand deposits in insured nonmember banks and in insured branches of foreign banks and for such purpose it may define the term "demand deposits"; but such exceptions from this prohibition shall be made as are now or may hereafter be prescribed with respect to deposits payable on demand in member banks by section 19 of the Federal Reserve Act, as amended, or by regulation of the Board of Governors of the Federal Reserve System. The Board of Directors may from time to time, after consulting with the Board of Governors of the Federal Reserve System and the Director of the Office of Thrift Super-

vision, prescribe rules governing the advertisement of interest or dividends on deposits, including limitations on the rates of interest or dividends that may be paid by insured nonmember banks (including insured mutual savings banks) on time and savings deposits. The Board of Directors is authorized for the purposes of this subsection to define the terms "time deposits" and "savings deposits", to determine what shall be deemed a payment of interest, and to prescribe such regulations as it may deem necessary to effectuate the purposes of this subsection and to prevent evasions thereof. The provisions of this subsection and of regulations issued thereunder shall also apply, in the discretion of the Board of Directors, to obligations other than deposits that are undertaken by insured nonmember banks or their affiliates. As used in this subsection, the term "affiliate" has the same meaning as when used in section 2(b) of the Banking Act of 1933, as amended (12 U.S.C. 221a(b)), except that the term "member bank", as used in such section 2(b), shall be deemed to refer to an insured nonmember bank. During the period commencing on October 15, 1962, and ending on October 15, 1968, the provisions of this subsection shall not apply to the rate of interest which may be paid by insured nonmember banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member. The authority conferred by this subsection shall also apply to noninsured banks in any State if the total amount of time and savings deposits held in all such banks in the State, plus the total amount of deposits, shares, and withdrawable accounts held in all building and loan, savings and loan, and homestead associations (including cooperative banks) in the State which are not members of a Federal home loan bank, is more than 20 per centum of the total amount of such deposits, shares, and withdrawable accounts held in all banks, and building and loan, savings and loan, and homestead associations (including cooperative banks) in the State. Such authority shall only be exercised by the Board of Directors with respect to such noninsured banks prior to July 31, 1970, to limit the rates of interest or dividends which such banks may pay on time and savings deposits to maximum rates not lower than 5½ per centum per annum. Whenever it shall appear to the Board of Directors that any noninsured bank or any affiliate thereof is engaged or has engaged or is about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this subsection or of any regulations thereunder, the Board of Directors may, in its discretion, bring an action in the United States district court for the judicial district in which the principal office of the noninsured bank or affiliate thereof is located to enjoin such acts or practices, to enforce compliance with this subsection or any regulations thereunder, or for a combination of the foregoing, and such courts shall have jurisdiction of such actions, and, upon a proper showing, an injunction, restraining order, or other appropriate order may be granted without bond.

[(2) Notwithstanding the provisions of paragraph (1), an insured nonmember bank may permit withdrawals to be made automatically from a savings deposit that consists only of funds in which the entire beneficial interest is held by one or more individuals

through payment to the bank itself or through transfer of credit to a demand deposit or other account pursuant to written authorization from the depositor to make such payments or transfers in connection with checks or drafts drawn upon the bank, pursuant to terms and conditions prescribed by the Board of Directors.

**[**(3) TRANSFERS.—Notwithstanding any other provision of this subsection, an insured nonmember bank or insured State savings association may permit the owner of any deposit or share, any account which is a deposit or share, or any account on which interest or dividends are paid to make up to 24 transfers per month (or such greater number as the Board of Governors of the Federal Reserve System may determine by rule or order under section 19(i) to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution. Nothing in this subsection shall be construed to prevent an account offered pursuant to this subsection from being considered a transaction account (as defined in section 19(b) of the Federal Reserve Act) for purposes of the Federal Reserve Act.**]**

*(g) [Repealed]*

* * * * * * *

○