

107TH CONGRESS  
1ST SESSION

# S. 229

To amend Federal banking law to permit the payment of interest on business checking accounts in certain circumstances, and for other purposes.

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IN THE SENATE OF THE UNITED STATES

JANUARY 31, 2001

Mr. HAGEL introduced the following bill; which was read twice and referred to the Committee on Banking, Housing, and Urban Affairs

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## A BILL

To amend Federal banking law to permit the payment of interest on business checking accounts in certain circumstances, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Interest on Business  
5 Checking Act of 2001”.

6 **SEC. 2. AMENDMENTS RELATING TO DEMAND DEPOSIT AC-**  
7 **COUNTS AT DEPOSITORY INSTITUTIONS.**

8 (a) INTEREST-BEARING TRANSACTION ACCOUNTS  
9 AUTHORIZED.—

1           (1) FEDERAL RESERVE ACT.—Section 19(i) of  
2     the Federal Reserve Act (12 U.S.C. 371a) is amend-  
3     ed by adding at the end the following: “Notwith-  
4     standing any other provision of this section, a mem-  
5     ber bank may permit the owner of any deposit, any  
6     account which is a deposit, or any account on which  
7     interest or dividends are paid, to make not more  
8     than 24 transfers per month (or such greater num-  
9     ber as the Board may determine by rule or order),  
10    for any purpose, to a demand deposit account of the  
11    owner in the same institution. With respect to an es-  
12    crow account maintained in connection with a loan,  
13    a lender or servicer shall pay interest on such ac-  
14    count only if such payments are required by contract  
15    between the lender or servicer and the borrower, or  
16    a specific statutory provision of the law of the State  
17    in which the security property is located requires the  
18    lender or servicer to make such payments. Nothing  
19    in this subsection shall be construed to prevent an  
20    account offered pursuant to this subsection from  
21    being considered a transaction account for purposes  
22    of this Act.”.

23           (2) HOME OWNERS’ LOAN ACT.—Section  
24    5(b)(1) of the Home Owners’ Loan Act (12 U.S.C.

1       1464 (b)(1)) is amended by adding at the end the  
2       following:

3               “(G) TRANSFERS.—

4               “(i) IN GENERAL.—Notwithstanding  
5               any other provision of this paragraph, a  
6               Federal savings association may permit the  
7               owner of any deposit or share, any account  
8               which is a deposit or share, or any account  
9               on which interest or dividends are paid, to  
10              make not more than 24 transfers per  
11              month (or such greater number as the  
12              Board of Governors of the Federal Reserve  
13              System may determine by rule or order  
14              under section 19(i) of the Federal Reserve  
15              Act to be permissible for member banks),  
16              for any purpose, to a demand deposit ac-  
17              count of the owner in the same institution.

18              “(ii) ESCROW ACCOUNTS.—With re-  
19              spect to an escrow account maintained in  
20              connection with a loan, a lender or servicer  
21              shall pay interest on such account only  
22              if—

23                      “(I) such payments are required  
24                      by contract between the lender or  
25                      servicer and the borrower; or

1 “(II) a specific statutory provi-  
 2 sion of the law of the State in which  
 3 the security property is located re-  
 4 quires the lender or servicer to make  
 5 such payments.

6 “(iii) LIMITATION.—Nothing in this  
 7 subsection shall be construed to prevent an  
 8 account offered pursuant to this subsection  
 9 from being considered a transaction ac-  
 10 count (as defined in section 19(b) of the  
 11 Federal Reserve Act) for purposes of the  
 12 Federal Reserve Act.”.

13 (3) FEDERAL DEPOSIT INSURANCE ACT.—Sec-  
 14 tion 18(g) of the Federal Deposit Insurance Act (12  
 15 U.S.C. 1828(g)) is amended by adding at the end  
 16 the following:

17 “(3) TRANSFERS.—

18 “(A) IN GENERAL.—Notwithstanding any  
 19 other provision of this subsection, an insured  
 20 nonmember bank or insured State savings asso-  
 21 ciation may permit the owner of any deposit or  
 22 share, any account which is a deposit or share,  
 23 or any account on which interest or dividends  
 24 are paid to make not more than 24 transfers  
 25 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) of the Federal Reserve Act to be permissible for member banks), for any purpose, to a demand deposit account of the owner in the same institution.

“(B) ESCROW ACCOUNTS.—With respect to an escrow account maintained in connection with a loan, a lender or servicer shall pay interest on such account only if—

“(i) such payments are required by contract between the lender or servicer and the borrower; or

“(ii) a specific statutory provision of the law of the State in which the security property is located requires the lender or servicer to make such payments.

“(C) LIMITATION.—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 (1) FEDERAL RESERVE ACT.—Section 19(i) of  
 2 the Federal Reserve Act (12 U.S.C. 371a) is amend-  
 3 ed to read as follows:

4 “(i) [Repealed].”.

5 (2) HOME OWNERS’ LOAN ACT.—Section  
 6 5(b)(1) of the Home Owners’ Loan Act (12 U.S.C.  
 7 1464(b)(1)) is amended—

8 (A) in subparagraph (B), by striking “sav-  
 9 ings association may not—” and all that follows  
 10 through “(ii) permit any” and inserting “sav-  
 11 ings association may not permit any”; and

12 (B) by striking subparagraph (G).

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

16 “(g) [Repealed].”.

17 (4) EFFECTIVE DATE.—The amendments made  
 18 by this subsection shall take effect at the end of the  
 19 2-year period beginning on the date of enactment of  
 20 this Act.

21 **SEC. 3. PAYMENT OF INTEREST ON RESERVES AT FEDERAL**  
 22 **RESERVE BANKS.**

23 (a) IN GENERAL.—Section 19(b) of the Federal Re-  
 24 serve Act (12 U.S.C. 461(b)) is amended by adding at  
 25 the end the following:

1 “(12) EARNINGS ON RESERVES.—

2 “(A) IN GENERAL.—Balances maintained  
3 at a Federal reserve bank by or on behalf of a  
4 depository institution to meet the reserve re-  
5 quirements of this subsection applicable with re-  
6 spect to such depository institution shall receive  
7 earnings to be paid by the Federal reserve bank  
8 at least once each calendar quarter at a rate or  
9 rates not to exceed the general level of short  
10 term interest rates.

11 “(B) REGULATIONS RELATING TO PAY-  
12 MENTS AND DISTRIBUTION.—The Board may  
13 prescribe regulations concerning—

14 “(i) the payment of earnings in ac-  
15 cordance with this paragraph;

16 “(ii) the distribution of such earnings  
17 to the depository institutions which main-  
18 tain balances at such banks or on whose  
19 behalf such balances are maintained; and

20 “(iii) the responsibilities of depository  
21 institutions, Federal home loan banks, and  
22 the National Credit Union Administration  
23 Central Liquidity Facility with respect to  
24 the crediting and distribution of earnings  
25 attributable to balances maintained, in ac-

1 cordance with subsection (c)(1)(B), in a  
 2 Federal reserve bank by any such entity on  
 3 behalf of depository institutions which are  
 4 not member banks.”.

5 (b) TECHNICAL AND CONFORMING AMENDMENTS.—

6 (1) SECTION 19(b) OF FEDERAL RESERVE  
 7 ACT.—Section 19(b)(4) of the Federal Reserve Act  
 8 (12 U.S.C. 461(b)(4)) is amended—

9 (A) by striking subparagraph (C); and

10 (B) by redesignating subparagraphs (D)  
 11 and (E) as subparagraphs (C) and (D), respec-  
 12 tively.

13 (2) SECTION 19(c) OF FEDERAL RESERVE  
 14 ACT.—Section 19(c)(1)(A) of the Federal Reserve  
 15 Act (12 U.S.C. 461(c)(1)(A)) is amended by striking  
 16 “subsection (b)(4)(C)” and inserting “subsection  
 17 (b)”.

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