

FACT SHEET

Interest Rate Restrictions

The Federal Deposit Insurance Corporation (FDIC) published a final rule to revise its regulations relating to interest rate restrictions on banks that are less than well capitalized.

PROMOTES FLEXIBILITY AND RESPONSIVENESS ACROSS ECONOMIC CYCLES – The final rule promotes flexibility for institutions subject to the interest rate restrictions and ensures that those institutions will be able to compete for deposits regardless of the interest rate environment.

- The final rule defines the “National Rate Cap” as the higher of (1) the national rate plus 75 basis points; or (2) for maturity deposits, 120 percent of the current yield on similar maturity U.S. Treasury obligations and, for nonmaturity deposits, the federal funds rate, plus 75 basis points.
- By establishing two methods for calculating the national rate cap, the FDIC ensures that deposit interest rate caps are durable under both high-rate or rising-rate environments and low-rate or falling-rate environments.

MORE COMPREHENSIVE NATIONAL RATE – The final rule defines the National Rate to include credit union rates for the first time.

- “*National Rate*” is defined as the weighted average of rates paid by all IDIs *and credit unions* on a given deposit product, for which data are available, where the weights are each institution’s market share of domestic deposits.

PROMOTES TRANSPARENCY – The final rule calculates the National Rate Cap based on similar maturity U.S. Treasury obligations and the federal funds rate, which are both publicly available, and thus, represent a more transparent calculation for bankers and the public.

REDUCES REGULATORY BURDEN – The final rule provides a new simplified process, as opposed to the current two-step process, for institutions that seek to offer a competitive rate when the prevailing rate in an institution’s local market area exceeds the national rate cap. In addition, the final rule establishes a simpler notice process for community banks seeking to use their local market rate cap, replacing the existing process which required institutions to request a high rate determination from the FDIC and then calculate prevailing rates in the local market.