



## **Dodd-Frank: FDIC Issues Final Rule Permitting Interest on Demand Deposits of State Non-Member Banks**

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Section 627 of the Dodd-Frank Wall Street Reform and Consumer Protection Act repeals the prohibition against the payment of interest on demand deposits, effective July 21, 2011.

On Thursday, July 14, 2011, the Federal Deposit Insurance Corporation (the "FDIC") issued a final rule rescinding its regulation (12 CFR Part 329) that prohibits the payment of interest on demand deposits for state-chartered banks that are not members of the Federal Reserve System. The effective date of the rule is July 21, 2011.

As reported in this publication last April, the Federal Reserve Board has issued a notice of proposed rulemaking to repeal its Regulation Q (Interest on Deposits). Regulation Q implements the prohibition on the payment of interest on demand deposits with respect to state-chartered banks that are members of the Federal Reserve System.

The FDIC received several comments to its notice of proposed rulemaking, which was published for comment on April 15, 2011. Most substantive comments expressed concern about the impact of the repeal on community banks. These comments generally stated that the repeal would result in heightened competition for deposits, and that larger banks would be in a better position than community banks to offer higher rates in order to attract these deposits. There was also concern that increased deposits would put undue pressure on banks to lend these new funds out, resulting in potentially unsafe and unsound lending practices.

The FDIC rejected these arguments and stated that there would more likely be benefits to community banks, such as no longer feeling the need to waive fees on demand accounts and reducing the expense currently associated with business

demand deposits.

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