AMENDMENTS TO INTEREST RATE REGULATIONS

The economic policy measures introduced by the Government on 22 June 1982 were summarised in the July issue of the *Bulletin* This note identifies the subsequent amendments made to the interest rate regulations announced at that time

THE INTEREST ON DEPOSIT ORDER (NO.2) 1982

On 13 July 1982 a new Interest on Deposits Order came into force, replacing the previous order issued on 22 June 1982 Also, a directive under Section 34 of the Reserve Bank Act (which replaced that issued on 22 June 1982) was issued to the trading banks and the Post Office Savings Bank was covered by a revised Interest Notice These have broadly the same effect as the Interest on Deposits Order (No 2) 1982 A schedule of maximum rates of interest payable by financial institutions follows this article The main changes from the previous Orders and Directive were an expanded definition of 'deposit' and new definitions of 'interest' and 'rate of interest' An explanation of the main changes follows

Deposits

The definition of deposit now includes loans and advances, buy back arrangements, interest credited in respect of money deposited and redeemable building society shares Transactions already covered by certain other Orders in Council and Reserve Bank directives have been excluded from the new regulations Thus, trading banks and savings banks are still constrained from paying interest on deposits for an original maturity of less than 30 days except for 3 per cent on savings bank ordinary savings accounts The rates which appear in the schedule for savings bank deposits of less than 30 days apply only to term deposits of at least 30 days which are repaid early, and for special investment account arrangements and staff cheque accounts

Interest

The definition includes all money paid in excess of the amount of the deposit

Rate of Interest

Under the new definition, interest may be paid or credited in quarterly (or less frequent) instalments at up to the scheduled rate per annum For example if the maximum rate set by the schedule is 12 per cent per annum, it would be in order to pay 3 per cent per quarter — either in cash or credited as compound interest However, such interest must be paid in arrears If interest is paid in advance or more frequently than quarterly, interest must be deducted from the principal for the purpose of calculating the applicable rate of interest, which may not exceed the scheduled rate Provision has been made for the first instalment of interest to be paid by way of a broken interest instalment (in arrears) before three months has elapsed in cases where instalments are normally paid on fixed calendar dates

OTHER AMENDMENTS TO RESERVE BANK DIRECTIVES GOVERNING TRADING BANK DEPOSIT INTEREST RATES

From 9 August, the Schedule attached to the Reserve Bank directive of 13 July setting out the maximum interest rates payable on trading bank deposits which are defined to include the proceeds from the sale of a bill of exchange was amended to include the following

	Maximum Rate of Interest % per annum
Rates for deposits in the form of funds received from the sale of any bill of exchange drawn for an original period of not less than 90 days	
Period to maturity of bill	
Less than 45 days	15 25
Not less than 45 days but less than 76 days	16 25
Not less than 76 days	16 85

This was subsequently amended on 28 October 1982 to the following

Rates for deposits in the form of funds received from the sale of any bill of exchange drawn for an original period of not less than 30 days	16 85

The first of these amendments was designed to give the banks a degree of flexibility in operating in the commercial bill market, an activity which had become a significant one for the banks in recent years, but which was threatened by the Interest on Deposits Directive as it was originally issued The second amendment was introduced as part of a further package of measures designed to ease pressures in the commercial bill market, but at the same time ensure that the market remained subject to the interest rate controls This required that banks actually purchase and sell bills, rather than offer acceptance and endorsement only lines To this end, the banks were allowed a little additional flexibility in terms of commercial bill selling rates, but were requested not to offer acceptance or endorsement only lines for the duration of the controls

On 4 October, the directive which restricts the rate of interest which trading banks are allowed to pay on deposits with an original maturity of less than 30 days (the '30 Day Rule') was amended The main changes were

1 The coverage of the directive was extended from term deposits to all deposits (except those held by non-profit organisations and bank staff) This formalised a previous voluntary agreement among

the banks not to pay interest on most demand deposits

2 The introduction of a provision which allows a matured term deposit not exceeding $20,000 to run on as a 'call' deposit and continue to attract interest at the same rate as paid for the original term Previously, it was necessary for any matured deposit to be renewed for fixed periods of not less than seven days or at not less than seven days' notice if it was to continue to attract interest This latter restriction still applies to deposits which exceed $20,000

FINANCIAL SERVICES REGULATIONS (NO. 2) 1982

On 4 August 1982 the Prime Minister released a press statement announcing the introduction of new Financial Services Regulations, revoking the June Regulations which in turn revoked the earlier 1979 Regulations and Amendments

The main change brought about by the new Regulations was a reduction in the exemption applying to suppliers of financial services from $100,000 to $10,000 Any lender or supplier who had been or would be, as a result of a transaction, supplying more than a total of $10,000 in financial services is now subject to the Regulations The effect of this is to bring most mortgages arranged through solicitors and much of the investment in industrial company debentures within the ambit of the Regulations

Mr Muldoon said that the exemption had originally been set at $100,000 to avoid the necessity of having thousands of small private transactions notified to the Reserve Bank with the Bank having to consider each one individually and determine whether or not to object However there was some evidence that with the exemption at $100,000, loan money was starting to bypass the usual financial intermediaries, with increases in direct lending and in such areas as the solicitors' mortgage market where most lending is in smaller amounts Thus the $100,000 was reduced to $10,000, but to avoid the administrative burden of large numbers of notifications, an exemption for lending at up to 18 per cent per annum was set This 18 per cent exemption applies only to individuals and corporate bodies who are not financial institutions The lending rates of most financial institutions are still pegged at their November 1981 levels, set when the stabilisation measures were first introduced The 18 per cent maximum permitted for others should enable most mortgages through solicitors and investments in industrial company debentures to proceed without hindrance but it would catch the relatively small proportion who propose to lend at higher rates

The position now (15 November 1982) is that any person who is not a financial institution and who has or will have more than $10,000 invested, may not lend to any person at a rate higher than the rate at which they were lending when the new Regulations were introduced on 4 August 1982, or 18 per cent, whichever is the greater If they wish to lend at a higher rate they must first apply to the Reserve Bank, which has 28 days in which to object to the proposed rate An objection can have the effect of prohibiting the rate proposed

CURRENT SCHEDULE OF MAXIMUM RATES OF INTEREST PAYABLE BY FINANCIAL INSTITUTIONS

Period of Deposit	*Trading and Savings Banks*	*Building Societies*	*Finance Companies & Others*
	Maximum Rate of Interest Per Cent Per Annum		
1 *Rates for deposits not exceeding $20,000* *Period of Deposit*			
Repayable at call	8 5[1]	9 0	11 0
Not less than 7 days but less than 30 days	9 5[1]	10 0	11 0
Not less than 30 days but less than 60 days	10 0	10 5	11 5
Not less than 60 days but less than 90 days	11 0	11 5	12 5
Not less than 90 days but less than 180 days	11 5	12 0	13 0
Not less than 180 days but less than 1 year	12 5	13 0	14 0
Not less than 1 year but less than 2 years	13 5	14 0	15 0
Not less than 2 years but less than 3 years	14 0	14 5	15 5
Not less than 3 years	14 5	15 0	16 0
2 *Rates for deposits exceeding $20,000 but not exceeding $100,000*			
Repayable at call	9 5[1]	10 0	12 0
Not less than 7 days but less than 30 days	10 5[1]	11 0	12 0
Not less than 30 days but less than 60 days	11 0	11 5	12 5
Not less than 60 days but less than 90 days	12 0	12 5	13 5
Not less than 90 days but less than 180 days	12 5	13 0	14 0
Not less than 180 days but less than 1 year	13 5	14 0	15 0
Not less than 1 year but less than 2 years	14 5	15 0	16 0
Not less than 2 years but less than 3 years	15 0	15 5	16 5
Not less than 3 years	15 5	16 0	17 0
3 *Rates for deposits exceeding $100,000*			
Repayable at call	10 5[1]	11 0	13 0
Not less than 7 days but less than 30 days	11 5[1]	12 0	13 5
Not less than 30 days but less than 60 days	12 5	13 0	14 0
Not less than 60 days but less than 90 days	14 0	14 5	15 0
Not less than 90 days	16 5	17 0	17 5
4 Rate for deposits in the form of funds received from the sale of a bill of exchange drawn for an original period of not less than 30 days in the case of a trading bank[2]	16 85		

Note The rates specified in this schedule are maximum rates but, within any such maximum rate, the interest payable in respect of any deposit may be paid in any manner agreed by the depositor with the financial institution

1 These rates apply to savings banks only, and only in certain circumstances For trading banks, the maximum rates which can be paid for these terms are governed by the '30 Day Rule' as outlined in the text

2 For other financial institutions there are no maximum rates at which they may sell bills However, all purchasers of bills are restricted by the Financial Services Regulations and for bill dealers, including the trading banks, their maximum buying in yields are 16 85 per cent plus the normal margin they would have applied when discounting the same bill on 25 November, 1981