FDIC Interest Rate Restrictions
(FDIC Rules and Regulations Part 337.7)

FDIC regulations impose deposit interest rate restrictions on insured financial institutions that are less than well capitalized. Such restrictions have been in place since 1992 and were designed to prevent a **less than well capitalized** institution from offering deposit rates that significantly exceed the prevailing rates in its normal market area.

On December 15, 2020, the FDIC issued a final rule that amends its methodology for calculating interest rate limits. Effective April 1, 2021, the agency will use different approaches to determine the National Rate, the National Rate Cap and the Local Market Rate Cap, which are used by the FDIC to ensure that an institution is offering interest rates appropriate for its capitalization status.

National Rate

Historically the National Rate was calculated as a simple average of rates paid by all depository institutions and branches that offer and publish rates for specific products. Under the new regulation, the FDIC will define the National Rate as the weighted average of rates paid by all IDIs and credit unions on a given deposit product (for which data are available), based on each institution's market share of domestic deposits – not its number of branches, as was previously the case.

National Rate Cap

A less than well capitalized bank may not offer a deposit rate higher than the National Rate Cap for deposits of similar size and maturity. In its new regulation, the FDIC offers two options for determining the National Rate Cap. These options were configured to ensure that less than well capitalized institutions will be able to compete for deposits in a high-rate or rising-rate environment, and in a low-rate or falling-rate environment.

Effective April 1, 2021, the National Rate Cap will be defined as the higher of:

- the National Rate plus 75 basis points; or
- 120 percent of the current yield on similar maturity U.S. Treasury obligations plus 75 basis points or, in the case of any non-maturity deposits, the fed funds rate plus 75 basis points.

Local Market Rate Cap

When generating deposits in its local market, a less than well capitalized bank may establish its interest rate offer using the Local Market Rate Cap, which is now equal to:

- ninety (90) percent of the highest rate offered on a particular deposit product by an insured depository institution or credit union in the institution's geographic local market area.

An institution utilizing the Local Market Rate Cap will be required to notify its FDIC Regional Director that it intends to offer a rate that exceeds the National Rate Cap. This notification must be supported by evidence that another financial institution in its local market area is offering a rate on a particular deposit product in excess of the National Rate Cap. The specified local market may include the state, county or metropolitan statistical area in which the insured depository institution accepts or solicits deposits.

What to do about odd terms?

Standard maturity terms include: one month, three months, six months, 12 months, 24 months, 36 months, 48 months and 60 months. All other term periods are considered "off tenor" for the purpose of this regulation. If a bank offers a deposit with an off-tenor maturity for which the FDIC does not publish a National Rate Cap, and if the off-tenor maturity term is not being offered by another institution within the bank's local market area, the bank must use the rate offered in the next lower standard maturity term for that product when determining its applicable national or local rate cap. For example, an institution seeking to offer a 26-months certificate of deposit must use the rate offered for a 24-months certificate of deposit to determine the institution's applicable national or local rate cap.

Where and when will the national rate cap information be published?

The FDIC will publish the National Rate Cap information on its website at https://www.fdic.gov/regulations/resources/rates/.

These rates will be updated monthly; however, the FDIC maintains the discretion to publish more or less frequently, if needed.

For more information, *contact Debbie Walker, QwickRate Director of Regulatory and Compliance, at 678.797.4056. Or call Customer Service at 800.285.8626.*