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MEMORANDUM

April 2, 2003

To Our Clients and Friends

Re: Business Checking Freedom Act of 2003

The House of Representatives has passed the Business Checking Freedom Act of 2003 (H.R. 758), which permits depository institutions to pay interest on business checking accounts on a phased-in basis. Initially, depository institutions will be permitted to pay interest on balances held by business entities and permit up to 24 withdrawals by check or by automatic transfer per month. The legislation authorizes the Federal Reserve Board to increase the number of withdrawals permitted per month. After two years, the limitation on the number of withdrawals per month is eliminated, and depository institutions will be permitted to pay interest on business accounts that possess unlimited withdrawal features. The two year phase-in period provides depository institutions with an opportunity to adjust to the additional costs associated with paying interest on business checking accounts. However, as a practical matter, the ability to permit business customers to make up to 24 transfers per month effectively permits depository institutions to pay interest on business checking balances without limitation.

The bill also permits the Federal Reserve to pay interest on required reserve balances that depository institutions maintain at Federal Reserve Banks. The rate that may be paid may not exceed the general level of short-term interest rates. In order to offset the cost of paying interest on reserves, the Federal Reserve Banks are to transfer a portion of their earnings surplus to the Treasury until 2007. The bill provides flexibility to the Federal Reserve Board to lower reserve requirements on transaction accounts to 0%. The Federal Reserve is also required to conduct an annual survey of transaction account products and services depository institutions provide and the fees charged. Finally, the bill permits industrial loan companies to offer checking accounts.

The text of the bill can be found at www.schwartzandballen.com/WhatsNew.htm.

If you have any questions concerning this bill, please call Gilbert Schwartz, Robert Ballen or Tom Fox at (202) 776-0700.