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M E M O R A N D U M

October 6, 2008

To Our Clients and Friends

Re: Interim Final Rule on Payment of Interest on Reserves

The Federal Reserve Board (the “Board”) has released an interim final rule directing the Federal Reserve Banks to begin paying interest on balances held by or for depository institutions and amending Regulation D (Reserve Requirements of Depository Institutions) accordingly, effective October 9, 2008. The interim final rule is promulgated under the Emergency Economic Stabilization Act of 2008, which accelerated the effective date of the Board’s authority to authorize the payment of interest on balances originally enacted under the Financial Services Regulatory Relief Act of 2006 (Pub. Law 109-351). Comments on the interim final rule are due November 21, 2008.

The interim final rule specifies that the Board will pay interest on balances required to be held to satisfy reserve requirements (“required reserve balances”) and balances held in excess of required reserve balances and clearing balances (“excess balances”). Clearing balances will not earn explicit interest but will continue to earn earnings credits under a revised formula.

The interest rate paid on required reserve balances will be the average targeted federal funds rate established by the Federal Open Market Committee for each reserve maintenance period, less 10 basis points. The interest rate paid on excess balances will be initially set as the lowest targeted federal funds rate for each reserve maintenance period, less 75 basis points, to be adjusted in light of experience and market conditions.

In addition, the Board is eliminating the Regulation D provisions regarding merger-related adjustments to reserve requirements. The Board views the payment of interest on required reserves as negating the need for the adjustment provisions.

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A copy of the interim rule can be found on our website at http://www.schwartzandballen.com/whats_new.html.

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