

## Press Release

October 22, 2008

### Federal Reserve announces it will alter the formula used to determine the interest rate paid to depository institutions on excess balances

For release at 10:00 a.m. EDT

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The Federal Reserve Board on Wednesday announced that it will alter the formula used to determine the interest rate paid to depository institutions on excess balances.

Previously, the rate on excess balances had been set as the lowest federal funds rate target established by the Federal Open Market Committee (FOMC) in effect during the reserve maintenance period minus 75 basis points. Under the new formula, the rate on excess balances will be set equal to the lowest FOMC target rate in effect during the reserve maintenance period less 35 basis points. This change will become effective for the maintenance periods beginning Thursday, October 23.

The Board judged that a narrower spread between the target funds rate and the rate on excess balances at this time would help foster trading in the funds market at rates closer to the target rate. The Board will continue to evaluate the appropriate setting of the rate on excess balances in light of evolving market conditions and make further adjustments as needed.

Last Update: October 22, 2008