

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-58

May 1, 1975

NOW ACCOUNTS FOR GOVERNMENTAL UNITS

TO ALL MEMBER BANKS AND OTHERS CONCERNED  
IN THE ELEVENTH FEDERAL RESERVE DISTRICT:

The Board of Governors of the Federal Reserve System has amended its Regulation Q, "Interest on Deposits," to prohibit member banks from issuing NOW accounts (check-like withdrawals from interest-bearing savings accounts) to governmental units effective May 16, 1975.

Such accounts established prior to May 16, 1975 may be maintained through December 31, 1975.

A copy of the amendment to Regulation Q and a copy of the Federal Register document are attached for your information.

Sincerely yours,

T. W. Plant

First Vice President

Attachments

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENT TO REGULATION Q

1. Effective May 16, 1975, § 217.1(e)(3) is amended to read as follows:

SECTION 217.1 — DEFINITIONS.

\* \* \* \* \*

(c) **Savings Deposits.**

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(3) In those states where banks are permitted to offer deposits subject to negotiable orders of withdrawal, such deposits may be maintained if such deposits consist of funds

deposited to the credit of or in which the entire beneficial interest is held by one or more individuals, or of a corporation, association, or other organization operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes, and not operated for profit. Any deposit account subject to negotiable orders of withdrawal established prior to May 16, 1975, which consists of funds deposited to the credit of or in which the entire beneficial interest is held by a governmental unit not qualifying herein may be maintained through December 31, 1975.

TITLE 12--BANKS AND BANKING

CHAPTER II--FEDERAL RESERVE SYSTEM

SUBCHAPTER A--BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

[REG. Q]

PART 217--INTEREST ON DEPOSITS

NOW Accounts for Governmental Units

By notice published in the Federal Register of December 31, 1974 (39 Federal Register 45301), the Board of Governors proposed to amend Regulation Q to prohibit member banks from accepting deposits subject to negotiable order of withdrawal (NOW) from governmental units. The Board has approved an amendment to Regulation Q to prohibit NOW accounts of governmental units effective May 16, 1975. In addition, the Board has determined that NOW accounts established prior to May 16, 1975 by governmental units may be maintained through December 31, 1975.

The December 31, 1974 proposal reflected the Board's consideration of requests that it review its action of November 26, 1974, amending Regulation Q to authorize member banks to accept governmental unit NOW accounts. That action was taken in conjunction with P.L. 93-495 which provides Federal deposit insurance up to \$100,000 for time and savings deposits of governmental units. The amendment, effective November 27, 1974, included deposits of governmental units in the definition of the term savings deposits (39 Federal Register 43056). Because NOW accounts are permitted to be offered on an experimental basis solely in Massachusetts

and New Hampshire (P.L. 93-100) and are included in the definition of the term savings deposits in Regulation Q, the Board's amendment also had the effect of authorizing governmental unit NOW accounts in those two States.

After review and consideration of all comments received and of all relevant matter presented, pursuant to its authority under § 19 of the Federal Reserve Act (12 U.S.C. 461) to define terms used in that section, the Board has approved an amendment to Regulation Q to prohibit NOW accounts of governmental units effective May 16, 1975. However, governmental units which, based on the character of their activities, have traditionally been permitted to maintain savings deposits, will continue to be permitted to maintain NOW accounts.

This action is taken in light of the potentially disruptive economic effects that authorization at this time of governmental unit NOW accounts could have upon deposit relationships between financial institutions and State and local governments in Massachusetts and New Hampshire. The Board will continue to monitor NOW accounts in these States and may review the permissibility of these accounts for governmental units at some future date.