



American Revolution Bicentennial

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 75-113
August 7, 1975

AMENDMENT TO REGULATION Q

Preauthorized Transfers of Funds from Savings Accounts

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

Following is the text of a statement issued on July 28, 1975, by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today authorized member banks to offer a bill-paying service to their customers through the preauthorized transfer of funds from the customer's savings account. The action is effective September 2.

At present, a bill-paying service of this type can be made only for the payment of the principal, interest, or other charges related to a real estate loan or mortgage.

The new authorization, in the form of an amendment to the Board's Regulation Q governing the payment of interest on deposits, permits a savings depositor to authorize the transfer of funds to third parties for payments of any type, except bank overdrafts.

The amendment as adopted was substantially the same as proposed by the Board on April 7, with three modifications:

- It specifies that transfers from savings accounts may not be made to cover overdrafts or the use of a checking account line of credit.
- The amendment makes it clear that it does not permit a member bank to agree to transfer funds automatically--i.e., without specific instructions--from a customer's savings account to the customer's checking account.
- The amendment indicates that withdrawal orders or authorizations for payment to third parties may be received by a member bank only from a depositor.

The Board has previously invited public comment on proposed arrangements for access to Federal Reserve clearing and settlement facilities connected

with automated clearing houses. Pending further consideration on this matter, such Federal Reserve facilities may not be used to clear the third party transfers from savings accounts now authorized. Rules presently in effect regarding the clearing and settling of negotiable orders of withdrawal (NOWs) are not affected by the amendment of Regulation Q announced today.

The amendment gives member banks broad, general authority to design and offer bill-paying services using funds in savings accounts. The amendment does not, however, specify the form of such services. The Board, therefore, offered the following hypothetical outline of a possible bill-paying service:

In most cases, a bill-paying service will be based upon a written contract between the bank and the depositor... The transfer... may be accomplished by means of an internal bank transaction or by sending a bank check to the transferee or the transferee's bank.

The depositor will give the bank the names of those organizations or individuals to whom funds are to be transferred, indicating either the specific amount to be paid to each, or a maximum amount and the frequency of payment...

Subsequent additions to the list of transferees or changes in instructions may be communicated to the bank in person, in writing, or by telephone.

If the depositor uses a written withdrawal form to convey transfer instructions to the bank, such form must contain language in boldface type that it is not negotiable or transferable.

The System will monitor the development of bill-paying services, and it is possible that additional regulations, or guidelines may be issued in the future. Member banks were advised to maintain data on accounts subject to third-party payment authorizations in a manner which will facilitate identification of such deposits for reporting purposes.

The Federal Deposit Insurance Corporation has proposed similar changes in its regulations.

The enclosed amendment should be inserted in your Regulations Binder. Additional copies will be furnished upon request to the Secretary's Office of this Bank.

Sincerely yours,

T. W. Plant

First Vice President

Enclosure

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

INTEREST ON DEPOSITS

AMENDMENTS TO REGULATION Q†

Effective September 2, 1975, § 217.5(c) is amended to read as follows:

217.5 — WITHDRAWAL OF SAVINGS DEPOSITS

* * * * *

(c) Manner of payment of savings deposits.

(1) Subject to the provisions of subparagraphs (2) and (3) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment⁷ to the depositor (but not to any other person whether or not acting for the depositor) except

- (i) * * * * *
(ii) * * * * *
(iii) * * * * *
(iv) * * * * *
(v) * * * * *
(vi) * * * * *

(vii) Pursuant to nontransferable withdrawal orders or authorizations received from a depositor by a member bank for the payment of amounts from such deposits to third parties, including the bank (except as prohibited by subparagraph 2), periodically or otherwise. Any such withdrawal or-

der or authorization that may be honored as a withdrawal request for payment to a third party may, if so authorized by the third party, be honored as a transfer to an account of such third party. Any form for such withdrawal order or authorization shall contain language in boldface type of reasonable size to the effect that it is not negotiable or transferable.

(2) Notwithstanding the provisions of subparagraph (1) of this paragraph, no withdrawal shall be permitted by a member bank to be made from a savings deposit, through payment to the bank itself or through transfer of credit to a demand or other deposit account of the same depositor (other than of interest on the savings deposit) if such payment or transfer is made pursuant to any advertised plan or any agreement, written or oral which authorizes such payments or transfers of credit to be made automatically or as a normal practice in order to cover checks or drafts drawn by the depositor upon the bank.

(3) The provisions of this paragraph do not apply to deposits subject to negotiable orders of withdrawal authorized by Federal law to be issued in the States of Massachusetts and New Hampshire.

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† For this Regulation to be complete as amended effective June 5, 1975, retain:

- 1) Printed Regulation pamphlet containing Regulation Q dated January 1, 1971;
2) Amendment effective January 1, 1974, Section 217.5(c)(4) and Section 217.6(i);
3) Amendment effective November 27, 1974, Section 217.1(e)(1);
4) Amendments effective December 23, 1974, Section 217.4(e) and Section 217.6(e);
5) Supplement effective December 23, 1974;
6) Amendment effective May 16, 1975, Section 217.1(e)(3);
7) Amendment effective June 5, 1975, Section 217.4(d) and amendment effective September 1, 1975, Section 217.3(f); and
8) This slip sheet effective on the date as shown herein.

⁷ Payment from a savings deposit or presentation of a passbook may be made over the counter, through the mails, or otherwise.