

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7538 ]  
December 27, 1974

PROPOSED AMENDMENT TO REGULATION Q

Reconsideration of NOW Accounts for Governmental Units

To All Member Banks, and Others Concerned,  
in the Second Federal Reserve District:

Following is the text of a statement issued December 23 by the Board of Governors of the Federal Reserve System inviting comment regarding whether member banks may continue to offer negotiable orders of withdrawal (NOW) accounts to governmental units:

The Board of Governors of the Federal Reserve System today invited comment as to whether member banks should continue to offer negotiable orders of withdrawal (NOWs) to governmental units.

Comment should be received by January 20, 1975.

Congress has allowed depository institutions in Massachusetts and New Hampshire to permit, on an experimental basis, the check-like NOWs to be issued against interest-bearing savings accounts.

NOW accounts have previously been available primarily to individuals. In conjunction with new legislation providing Federal insurance on time and savings accounts up to \$100,000, effective November 27, 1974, the Board revised its regulations to permit member banks to open savings accounts for governmental units. This had the effect of authorizing governmental-unit NOW accounts in Massachusetts and New Hampshire.

The Board has received several requests to further revise its definition of savings accounts to exclude governmental units from the use of NOW accounts. In the light of these requests, the Board has decided to solicit public comment on this subject.

No other parts of the Board's November 27 order dealing with savings accounts for governmental units is affected.

Pending the Board's review of public comment and determination of the matter, the Board recommended that member banks refrain from offering NOW accounts to governmental units.

In submitting the proposed amendment for publication in the *Federal Register*, the Board of Governors made the following additional statement:

The Board of Governors has determined to reconsider whether member banks in the States of Massachusetts and New Hampshire should continue to be permitted to offer to governmental units interest-bearing accounts subject to transfers of funds by negotiable orders of withdrawal (NOWs). In conjunction with P.L. 93-495, which provides Federal deposit insurance up to \$100,000 for time and savings deposits by governmental units, the Board, effective November 27, 1974, amended Regulation Q (12 CFR 217) to include deposits of governmental units in the definition of savings deposits (39 *Federal Register* 43056). Because NOW accounts are permitted to be offered on an experimental basis only in Massachusetts and New Hampshire (P.L. 93-100) and are included in the definition of savings deposits in Regulation Q, the Board's amendment of November 27, 1974 also had the effect of authorizing governmental unit NOW accounts in those two States.

The Board has received several requests that it review its action amending Regulation Q to authorize member banks to accept governmental unit NOW accounts. The Board's decision to review this action and to solicit written data, views, or arguments from interested persons is taken as a result of these requests which assert, in part, the potentially disruptive shifts of funds that may occur in the NOW experiment area as a result of this action. If it determines to rescind the authorization to member banks to maintain governmental unit NOW accounts, the Board expects to amend Section 217.1(e)(3) of Regulation Q to modify the

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definition of savings deposits to bar member banks from maintaining NOW accounts for governmental units as set forth below. That action would be taken pursuant to the Board's authority under Section 19 of the Federal Reserve Act (12 U.S.C. 461) to define the terms used in that section. No comments or requests have been received and no consideration is being given with respect to modifying or rescinding that part of the Board's November 27, 1974 action which authorized member banks to maintain "nontransfer order" savings deposits for governmental units.

Since the possibility exists that the Board will decide to prohibit member banks from maintaining NOW accounts for governmental units, it is recommended that member banks refrain from offering NOW accounts to governmental units pending a determination of this matter by the Board.

Interested persons are invited to submit written data, views, or arguments with respect to whether member banks should continue to be permitted to maintain NOW accounts for governmental units in Massachusetts and New Hampshire. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D. C. 20051, to be received not later than January 20, 1975. Such material will be made available for inspection and copying upon request, except as provided in Section 261.6(a) of the Board's Rules Regarding Availability of Information. This notice is published pursuant to Section 553(b) of Title 5, United States Code, and Section 262.2 of the Board's Rules of Procedure, 12 CFR Section 262.2.

Printed below is the text of the proposed amendment to Regulation Q, "Interest on Deposits." Comments thereon should be submitted by January 20, 1975, and may be sent to our Bank Regulations Department.

ALFRED HAYES,  
*President.*

## REGULATION Q—INTEREST ON DEPOSITS

### SECTION 217.1 DEFINITIONS

\* \* \*

(e) Savings deposits.

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(3) \* \* \* Member banks are not permitted to accept deposits subject to negotiable orders of withdrawal from governmental units.