

FEDERAL RESERVE BANK  
OF NEW YORK

[ Circular No. 7609 ]  
April 14, 1975

INTERPRETATION OF AND PROPOSED AMENDMENT TO REGULATION Q  
Withdrawal of Savings Deposits

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

Following is the text of a statement issued April 7 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System announced today two moves that would permit member banks to offer more convenient banking services to their customers.

In one action, effective immediately, the Board authorized member banks to permit use of the telephone by their customers to withdraw funds from their savings accounts or to transfer funds from a savings account. This rescinds a policy in effect since 1936.

The Board has studied the telephone withdrawal systems currently being developed by several member banks and feels that the security and record-keeping devices made possible by new technology and incorporated into these systems will keep errors and unauthorized use to a minimum. Further, the Board recognizes that the telephone has become an accepted medium for transmitting financial data and that the telephone merely provides the customer with an additional method of communicating instructions regarding his account to his bank.

The other action by the Board was a proposal, issued for comment, to amend Regulation Q. This would:

Permit member banks to offer a bill-paying service through preauthorized transfer of funds from a customer's savings account to pay his debts. The proposal would apply to any type of indebtedness and not just to mortgage related payments as presently permitted.

Under the proposed amendment, depositors could authorize member banks to withdraw funds from their savings deposits periodically, or otherwise, for the purpose of paying all or part of the depositor's indebtedness to a third party who may or may not maintain a deposit account at the depositor's bank. Such payments could be made by transfer to another account in the bank or by the bank drawing a check on itself and sending it to the creditor-payee or to another bank for the account of the creditor-payee.

Comment on the proposal will be received by the Board through June 6.

A similar action is being announced by the Federal Deposit Insurance Corporation.

Enclosed is a copy of the new interpretation of Regulation Q. In addition, printed below is the text of the proposed amendment to Regulation Q. Comments thereon should be submitted by June 6, 1975, and may be sent to our Bank Regulations Department.

Additional copies of this circular and the enclosure will be furnished upon request.

ALFRED HAYES,  
*President.*

REGULATION Q—INTEREST ON DEPOSITS  
Withdrawals from Savings Deposits

The Board of Governors has been asked to consider amendments to Regulation Q (Interest on Deposits) to permit member banks to offer their customers the privilege of withdrawing or transferring funds from savings deposits by means of withdrawal requests or authorization to the bank for periodic payments or transfers of principal or interest on any type of indebtedness of the

depositor. The principal effect of the proposed amendment would be to allow member banks to provide a full range of bill payment services to their customers without regard to the nature of the depositor's indebtedness.

Since 1962, the Board's Regulation Q (§ 217.5(c) (2) (ii)) has permitted a depositor to direct that certain recurring payments be made from a savings deposit, but

(OVER)

these permissible withdrawal authorizations are limited to "the payment of installments of principal, interest, or other charges (including taxes or insurance premiums) due on a real estate loan or mortgage." The Board believes that this provision may be unnecessarily restrictive and that it may be desirable to permit depositors to make third party payment authorizations without regard to the nature of the indebtedness.

Under the proposed amendment, depositors could authorize member banks to withdraw funds from their savings deposits periodically, or otherwise, for the purpose of paying all or part of the depositor's indebtedness to a third party who may or may not maintain a deposit account at the depositor's bank. Such payments could be made by transfer to another account in the bank or by the bank drawing a check on itself and sending it to the creditor-payee or to another bank for the account of the creditor-payee.

Accordingly, the Board proposes, pursuant to its authority under section 19 of the Federal Reserve Act (12 U.S.C. 461) to define the terms used in that section to amend § 217.5(c) of Regulation Q to read as follows:

**SECTION 217.5—WITHDRAWAL OF  
SAVINGS DEPOSITS**

\* \* \*

**(c) Manner of payment of savings deposits.**

(1) Subject to the provisions of subparagraph (2) of this paragraph, a member bank may permit withdrawals to be made from a savings deposit only through payment<sup>7</sup> to the depositor (but not to any other person whether or not acting for the depositor) except

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

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

(vii) Pursuant to nontransferrable orders or authorizations to the bank for the payment of amounts in such accounts to third parties, periodically or otherwise. Any such order or authorization that may be honored as a withdrawal request for payment to a third party may, if so authorized by the third party, also be honored as a transfer to an account of such third party. Any form for such order or authorization shall contain language in boldface type of reasonable size to the effect that the order or authorization is not negotiable or transferrable.

(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 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.

(4) Where a savings deposit is evidenced by a passbook, every withdrawal made upon presentation of the passbook shall be entered in the passbook at the time of withdrawal, and every other withdrawal from such a deposit shall be entered in the passbook as soon as practicable after the withdrawal is made.

To aid in the consideration of this matter by the Board, interested persons are invited to submit relevant data, views, or arguments. Any such material should be submitted in writing to the Secretary, Board of Governors of the Federal Reserve System, Washington, D.C. 20551, to be received not later than June 6, 1975. Such material will be made available for inspection and copying upon request, except as provided in § 261.6(a) of the Board's Rules Regarding Availability of Information.

By order of the Board of Governors, April 7, 1975.

# Board of Governors of the Federal Reserve System

## INTEREST ON DEPOSITS

### INTERPRETATION OF REGULATION Q

#### Withdrawal of Savings Deposits by Telephone

The Board has re-examined the issue of the manner in which member banks may accept instructions from owners of savings deposits. Upon review of this issue and in light of technological innovations which minimize the problems of record-keeping and security, the Board has decided to rescind its policy, announced in 1936, against withdrawals from savings accounts by telephone (1936 Fed. Res. *Bulletin* 624).

Part 217 is amended by adding the following new section:

#### § 217.152 — Withdrawals of Savings Deposits by Telephone

(a) The Board of Governors had been asked to reconsider its view, adopted in 1936, that a member bank may not permit a depositor to withdraw funds from his savings account by means of a telephone or other oral order (1936 Fed. Res. *Bulletin* 624). That position was based upon the Board's concern for member bank security and also upon its concern that unrestricted telephone access to savings accounts might lead depositors to treat such accounts as extensions of their checking accounts and destroy the distinction between the accounts.

(b) The Board has studied the telephone withdrawal systems currently being developed by several member banks and feels that the security and record-keeping devices made possible by new technology and incorporated into these systems will keep errors and unauthorized use to a minimum.

(c) The Board recognizes that the telephone has become an accepted medium for transmitting financial data and that the telephone merely provides the customer with an additional method of communicating instructions regarding his account to his bank. In fact, numerous other depository institutions including nonmember commercial banks and savings and loan associations have for some time been permitted to offer telephone withdrawal services.

Therefore, the Board withdraws its policy against the offering of telephone withdrawal services while advising member banks to safeguard such transfers with proper procedures and internal control.

(Interprets and applies 12 U.S.C. 371b)

By order of the Board of Governors, effective April 7, 1975.

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