

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7614]
April 21, 1975

NOW Accounts for Governmental Units

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

The Board of Governors of the Federal Reserve System has amended, effective May 16, 1975, its Regulation Q, "Interest on Deposits," to prohibit member banks from issuing negotiable orders of withdrawal (NOW accounts) to governmental units. In this connection, the Board of Governors issued the following statement on April 14:

The Board of Governors of the Federal Reserve System today announced an amendment to 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.

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

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

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.

Enclosed is a copy of the amendment to Regulation Q. You may address any questions thereto to our Bank Regulations Department.

Additional copies of the enclosure will be furnished upon request.

ALFRED HAYES,
President.