

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7841]
March 18, 1976

PROPOSED AMENDMENT TO REGULATION Q
Transfer of Savings Funds To Cover Overdrafts

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

Following is the text of a statement issued March 15 by the Board of Governors of the Federal Reserve System:

The Board of Governors of the Federal Reserve System today proposed for comment an amendment to its Regulation Q—Interest on Deposits—to permit member banks to agree to cover overdrafts by transferring funds from a customer's savings account.

The Board asked for comment on its proposal through May 14, 1976.

The Board proposed the automatic overdraft protection service as a logical outgrowth of its recent authorization of transfers from savings accounts upon instructions received from depositors by telephone.

Under the proposed amendment depositors maintaining both savings and demand deposit accounts at a member bank would be permitted:

- To have specified amounts of funds—in \$100 multiples—automatically transferred from their savings accounts to their demand accounts in case of an overdraft.
- To authorize an automatic transfer of certain amounts when the customer's demand deposit account falls below a certain level.
- To authorize a transfer out of savings to the bank itself in case of an overdraft.

The Board proposed that when a transfer is made from a savings account to cover an overdraft in a demand deposit account, or to bring the customer's demand account above a certain level, the depositor would be required to forfeit an amount equivalent to not less than 30 days' interest on the amount of the funds transferred. In addition, as presently required, banks would continue to reserve the right to impose 30 days' notice prior to the transfer of funds from savings.

Following is an example of how the proposed overdraft protection service would work, where there was a required forfeiture of 30 days' interest, and a minimum authorized transfer of \$100:

- Checking balance—\$600; Savings Balance—\$1,000
- Savings Interest Rate 5% simple interest per annum.
- Pursuant to prearranged agreement, transfers may be made in \$100 units to cover checks.
- Draft in amount of \$1,050 drawn on checking account.
- \$500 would be transferred from savings to checking.
- Depositor would forfeit 30 days' interest on the \$500 transferred, \$2.08.

Printed on the reverse side is the text of the proposal. Comments thereon should be submitted by May 14, and may be sent to our Bank Regulations Department.

PAUL A. VOLCKER,
President.

(OVER)

PART 217—INTEREST ON DEPOSITS

(Docket No. R-0027)

Withdrawals from Savings Deposits

The Board of Governors, pursuant to its authority under §19 of the Federal Reserve Act to define the terms used in that section and to prescribe rules governing the payment of interest on deposits (12 U.S.C. 461, 371b), proposes to amend Regulation Q to permit member banks to transfer funds from customers' savings accounts to customers' demand deposit or other deposit accounts or directly to the bank itself where the depositor's demand deposit balance is insufficient to permit payment of checks or drafts. Under existing regulations, such transfers are prohibited, and, therefore, member banks generally return such items through the check clearing system. The proposed amendment would require that transfer of credit be made pursuant to a written agreement between a member bank and its depositor that authorizes the transfer. This agreement would require that transfers be made in multiples of \$100 or more and that the depositor forfeit an amount equivalent to no less than 30 days' interest at the savings rate on the funds transferred.

The Board's proposal is made in recognition of the increasing cost incurred by consumers, banks, merchants, and other businessmen as a result of checks and drafts returned by banks for insufficient funds. Because of the special handling procedures required to process customer overdrafts, many banks impose a substantial charge to their customers for checks and drafts that must be returned because of insufficient funds. The presence of return items also has a substantial effect upon the speed and efficiency of the check clearing operations of the Federal Reserve System. As a result, the Federal Reserve System incurs a substantial expense in the handling of these returned checks and drafts. The Board's proposed amendment is intended to present an alternative to the existing practice of returning checks and drafts drawn on insufficient funds. The Board believes that the proposed amendment represents a reasonable accommodation that may be offered by member banks to their depositors.

As proposed, member banks could agree, in writing, with depositors that, in the event there are insufficient funds in the depositor's demand deposit account (or other deposit account) to cover checks that have been presented to the bank for payment or in the event that the balance in the depositor's demand deposit account falls below a certain specified amount, the bank will transfer funds in multiples of \$100 or more from the depositor's savings account to the customer's demand deposit account. This amendment would require that the depositor forfeit an amount equivalent to no less than 30 days' interest on the funds withdrawn and transferred from the savings account. The proposed amendment also

provides that funds may be transferred directly to the bank itself from the depositor's savings account to cover overdrafts. Member banks would continue to be required to reserve the right to impose a 30-day notice period on intended withdrawals of savings deposits as presently required in §217.1(c) of Regulation Q.

The Board is interested in receiving public comment on whether some other minimum interest forfeiture would be appropriate and whether transfers of minimum denominations different from the proposed \$100 would be appropriate.

This proposal would not affect existing arrangements whereby a thrift institution has agreed with its customer to transfer funds automatically or otherwise to the customer's demand deposit at a commercial bank in accordance with a preauthorized agreement.

Interested persons are invited to submit their 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 May 14, 1976. All material submitted should include the docket number R-0027. 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.

Pursuant to its authority under §19 of the Federal Reserve Act (12 U.S.C. 461, 371b), the Board of Governors proposes to amend §217.5(c) of Regulation Q (12 CFR 217.5(c)) as follows:

SECTION 217.5—WITHDRAWAL OF SAVINGS DEPOSITS

* * *

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

(2) Withdrawals may 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 pursuant to a written agreement between a member bank and its depositor that authorizes such payments or transfers in order to cover checks or drafts drawn by the depositor upon the bank; provided that such payments or transfers are made in multiples of no less than \$100 and that the depositor shall forfeit an amount equivalent to no less than 30 days' interest on the amount of funds withdrawn and transferred from a savings deposit in a manner described in this subparagraph.

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