

FEDERAL RESERVE BANK
OF NEW YORK

Circular No. 8434
October 13, 1978

GUIDELINES REGARDING AUTOMATIC TRANSFER OF FUNDS
FROM SAVINGS ACCOUNTS TO CHECKING ACCOUNTS

To the Member Banks of the Second Federal Reserve District:

As indicated in our Circular No. 8338, dated May 8, 1978, the Board of Governors of the Federal Reserve System amended its Regulation Q — Interest on Deposits — to permit individual customers of member banks to transfer funds automatically from their savings accounts to their checking accounts. Member banks may begin offering this new service on November 1, 1978. The Board of Governors has recently reviewed certain advertising programs developed by member banks to promote the automatic transfer of savings. The following is quoted from the text of a statement issued by the Board in this regard:

The Federal Reserve Board has provided guidance to member banks concerning advertising of plans for the automatic transfer of funds from savings to checking accounts.

*** the Board [*advises*] banks that advertisements and promotional materials should indicate clearly that the automatic transfer service involves two separate accounts — a checking account and a savings account. Banks are also advised that advertisements for the automatic transfer service should not convey the impression that interest is being paid on a checking account or that checks may be written against an interest-bearing savings account.

The Board has approved the automatic transfer of funds from savings to checking accounts, beginning November 1. The service approved by the Board requires that member banks offering the service specifically disclose, in written agreements with customers desiring the service, that the bank reserves the right to require at least 30 days' notice of withdrawal from savings accounts.

The Federal Deposit Insurance Corporation will be issuing similar guidance to insured nonmember banks in the near future.

Following is the text of the guidelines provided by the Board of Governors to assist member banks in developing their automatic transfer promotional programs:

(1) Advertisements and promotional materials should clearly indicate that the automatic transfer service involves two separate accounts — a savings account and a checking account. For example, terms such as "checking-savings plan", "interest/checking plan", or "savings/checking accounts" are acceptable since use of a "-", "/" or other similar signs and the word "accounts" in the above format highlights that the service involves two accounts.

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(2) Member banks should avoid referring to the automatic transfer service as equivalent or similar to paying interest on checking accounts. The Board believes that statements such as "interest on checking", "interest checking account", "interest-paying checking plan", and "almost like interest on checking" are inappropriate. Such statements do not accurately describe the nature of the service or indicate the existence of two separate accounts and may convey the incorrect impression that depositors will be receiving interest on demand deposits, which is currently prohibited by Federal law.

(3) Similarly, it is inappropriate to refer to the automatic transfer service as "checking on savings" or "checkable savings". Such statements are undesirable because they could result in the mistaken belief that checks may be drawn by depositors against their interest-bearing savings accounts, a service presently limited by Federal law to the six New England States.

(4) Member banks are reminded that depositors must be specifically informed at the time the automatic transfer of savings service is authorized that the bank reserves the right to require a notice period of at least 30 days of intended automatic withdrawals of savings deposits. Written agreements entered into by member banks and their depositors must prominently disclose this reservation.

Any questions regarding specific advertisements or promotional programs in connection with the automatic transfer of savings funds should be directed to our Consumer Affairs Division (Telephone Number (212) 791-5919).

PAUL A. VOLCKER,
President.