

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 8931]
October 8, 1980

ADVERTISING OF NOW ACCOUNTS

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

The Board of Governors of the Federal Reserve System, in conjunction with the other Federal regulators of banks and thrift institutions that offer NOW accounts, has adopted a policy statement concerning the advertising of such accounts. The text of the statement is printed below.

Questions on this matter may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

Policy Statement Regarding Advertising of NOW Accounts

The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Federal Home Loan Bank Board and the Office of the Comptroller of the Currency (hereafter "the agencies") wish to remind commercial banks and thrift institutions under their jurisdiction that any such institution offering or preparing to offer negotiable order of withdrawal (NOW) accounts must adhere to the advertising requirements applicable to all interest or dividend earning accounts when marketing NOW accounts. These basic advertising requirements appear in Section 217.6 of the Federal Reserve's Regulation Q (12 CFR 217.6) with respect to all Federal Reserve System member banks, including all national banks; Section 329.8 of the FDIC Rules and Regulations (12 CFR 329.8) for all FDIC insured nonmember institutions; and Section 526.6 of the FHLBB's Regulations for the Federal Home Loan Bank System (12 CFR 526.6) and Section 563.27 of the Federal Savings and Loan Insurance Corporation's Regulations (12 CFR 563.27) with respect to all savings institutions chartered by the FHLBB, insured by the FSLIC, or which are otherwise members of the Federal Home Loan Bank System.

The agencies recognize that those institutions receiving NOW account authority for the first time on December 31, 1980¹ may engage in advance NOW account promotional programs and may offer accounts that will be converted to NOW accounts on December 31, 1980. In this connection, the agencies draw special attention to the regulatory requirements that no representation (e.g.,

any advertisement, announcement, solicitation, etc.) made with respect to an interest or dividend earning account, such as a NOW account, may be inaccurate or misleading or misrepresent the account contract or service being offered. Consistent with these regulatory requirements, any advertisements or promotional materials issued before December 31, 1980 for NOW accounts or accounts that will be converted to NOW accounts should prominently indicate that, under Federal law, NOW account services are not available before December 31, 1980.

Institutions receiving NOW account authority on December 31, 1980 should ensure that all advertisements or promotional materials accurately describe the nature of the service to be offered on or after December 31, 1980. In this regard, accounts that will be converted to NOW accounts should not be characterized, prior to their conversion, as NOW accounts or described in such a way as to imply that the accounts are interest-bearing accounts upon which negotiable or transferable orders of withdrawal may be drawn.

Institutions also are reminded that, if a specific rate of interest (or dividends) to be paid on a NOW account is advertised, such advertisements must comply with the provisions of the agencies' regulations regarding the advertising of interest on deposits. In addition, if conditions or charges will be imposed on the account, that fact should be disclosed in the advertisement or promotional material. Consistent with the agencies' regulations, an institution should inform its customer not later than the time a NOW account is opened, or an existing account is converted to a NOW account, of the method that will be used in computing and paying interest on the account, including conditions that must be satisfied to earn a stated return and charges that may be assessed against the account.

¹ NOW accounts are currently authorized only in the six New England states and in New York and New Jersey. Title III of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221, 94 Stat. 146) provides nationwide NOW account authority, effective December 31, 1980.