

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. 9138]
September 3, 1981]

**SUSPENSION OF INTERPRETATION OF REGULATION Q
Eligibility Criteria for NOW Accounts**

*To All Depository Institutions, and Others Concerned,
in the Second Federal Reserve District:*

The following statement was issued on August 31 by the Board of Governors of the Federal Reserve System:

The Federal Reserve Board today suspended the September 1 effective date of an interpretation of its rules announced August 14 to clarify what depositors are eligible to hold interest-bearing checking accounts at member banks. This action was taken in view of pending litigation in the courts concerning NOW account eligibility rules.

The interpretation affected eligibility for Negotiable Order of Withdrawal (NOW) accounts authorized nationwide by the Consumer Checking Account Equity Act of 1980.

The interpretation of Regulation Q would permit the following depositors to establish NOW accounts at member banks:

1. All individuals, including businesses operated as sole proprietorships. (Only these individuals and sole proprietorships will continue to be eligible to hold Automatic Transfer Service (ATS) accounts.)
2. Non-profit organizations described in specified sections of the Internal Revenue Code.
3. Government units, if the funds are in the name of or are used for the purposes of schools, colleges, universities, libraries, hospitals or other medical or educational facilities.

As previously announced, currently permissible NOW accounts that would no longer qualify under the revised eligibility standards, and that were established before September 1, 1981 would be permanently grandfathered.

Enclosed — for depository institutions in this District — is the text of the Board's official notice of the suspension. It will be published in the *Federal Register*, and copies will be furnished by our Circulars Division upon request.

Questions on this matter may be directed to our Consumer Affairs and Bank Regulations Department (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.

FEDERAL RESERVE SYSTEM

Regulation Q

[12 CFR PART 217]

[Docket No. R-0356]

INTEREST ON DEPOSITS

Depositors Eligible to Maintain NOW Accounts

AGENCY: Board of Governors of the Federal Reserve System.

ACTION: Suspension of effective date.

SUMMARY: On August 14, 1981, the Board of Governors issued an interpretation of Regulation Q--Interest on Deposits (12 C.F.R. Part 217) to clarify the rules concerning the class of depositors eligible to maintain NOW accounts at member banks. The Board has suspended the effective date of the interpretation in light of litigation pending in the United States District Court for the District of Columbia (American Bankers Association v. Federal Home Loan Bank Board, et al. (Civil Action No. 81-1933, U.S. District Court for the District of Columbia)).

DATE: August 31, 1981.

FOR FURTHER INFORMATION CONTACT: Gilbert T. Schwartz, Associate General Counsel (202/452-3625), or Paul S. Pilecki, Senior Attorney (202/452-3281), Legal Division, Board of Governors of the Federal Reserve System, Washington, D.C. 20551.

SUPPLEMENTARY INFORMATION: The Consumer Checking Account Equity Act of 1980 (Title III of Pub. L. 96-221) ("Act") authorized depository institutions nationwide (except credit unions which are authorized to offer share draft accounts) effective December 31, 1980, to permit the owner of a deposit or account on which interest or dividends are paid to make withdrawals by negotiable or transferable instruments for the purpose of making transfers to third parties (12 U.S.C. § 1832(a)(1)). Under the statute, NOW accounts are available only to individuals and to certain qualifying organizations (12 U.S.C. § 1832(a)(2)).

On August 14, 1981, the Board issued an interpretation to clarify the rules concerning the class of depositors eligible to maintain NOW accounts (46 Fed. Reg. 42060). The Federal Home Loan Bank Board issued an interpretation on August 13, 1981, that provides for a broader class of eligibility for NOW accounts (46 Fed. Reg. 42250). On August 18, 1981, the American Bankers Association brought suit in the United States District Court for the District of Columbia challenging the interpretations of both agencies.

[Enc. Cir. No. 9138]

(Over)

The Board believes that its interpretation is the correct interpretation of the Act in that it is consistent with its existing regulations and interpretations. However, as a matter of convenience to member banks, the Board has suspended the effective date of the interpretation in view of the pending litigation. It should be noted that the current regulations of the Board concerning eligibility for NOW accounts at member banks (12 C.F.R. § 217.1(e)(3)), as well as the regulations of the other agencies remain in effect notwithstanding the suspension of the effective date of the August 14 interpretation. Accordingly, the effective date of 12 C.F.R. § 217.157 is hereby suspended.

By order of the Board of Governors, August 31, 1981.

(Signed) William W. Wiles

William W. Wiles
Secretary of the Board

[SEAL]