

**FEDERAL RESERVE BANK
OF NEW YORK**

[Circular No. **9645**
February 27, 1984]

**Proposed Policy Statement on Delayed Availability
of Deposited Funds**

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

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

The Federal Reserve Board proposed that the Federal financial institution regulators issue a joint policy statement to encourage institutions to disclose to their customers their practices regarding delayed availability of funds.

Delayed availability of funds is the practice whereby institutions delay a customer's ability to withdraw funds deposited by check into an account for several days after the date of deposit.

The Board made its request to the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the National Credit Union Association and the Federal Home Loan Bank Board. In letters to these agencies, the Board asked that a statement be issued that would provide a basis for specific action by institutions that delay availability. The proposed policy statement would call on financial institutions that delay availability to:

- review and disclose their policies.
- take into account individual factors that may indicate whether a risk of loss exists.
- provide a means for depositors to request an exception from the standard delay policies.
- refrain from imposing lengthy holds on Social Security and other Federal Government checks.

Printed on the following pages is the text of the Board's letter proposing the issuance of the joint policy statement. Questions on this matter may be directed to our Regulations Division (Tel. No. 212-791-5914).

ANTHONY M. SOLOMON,
President.



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

PAUL A. VOLCKER
CHAIRMAN

February 16, 1984

[Copy of letter sent to the Comptroller of the Currency, Chairman of the Federal Home Loan Bank Board, Chairman of the Federal Deposit Insurance Corporation, and Chairman of the National Credit Union Administration]

Dear :

The Board has been concerned for some time with certain aspects of the practice of financial institutions delaying their customers' ability to withdraw funds deposited in the form of a check. As I'm sure you know, there is a good deal of public concern about unreasonable delays, the lack of adequate advance disclosure of delay policies, and the problems customers can experience. While some delays may be justified because of the time it takes for unpaid checks to be returned, and the resulting risk of loss if depositors have immediate use of the funds, it does appear that more could be done to minimize the problems caused by the practice.

The Board has encouraged the industry to address the issue voluntarily, favoring that approach over a legislative or regulatory response to the problem. And it is in that context that we would like to explore with you and with the other financial institution supervisory agencies the possibility of issuing a joint policy statement on delayed availability. We feel that a joint agency statement would be appropriate in this case, given that the practice exists with all types of financial institutions. A policy statement could assist industry groups in urging their member institutions to act, and provide a basis for specific action by institutions that delayed availability.

In order to accomplish these objectives the policy statement could, for example, call on financial institutions that delay availability to:

- ° Review their policies and consider reducing the delay periods to the extent possible, consistent with prudent business practices.
- ° Disclose their policies to depositors at the time an account is opened and, when practical, at the time a check is deposited that will be subject to a delay in availability. Institutions might also alert depositors to other ways of transferring funds that do not involve checks, such as through wire transfers or direct deposit through an automated clearing house.

- ° Refrain from imposing holds on Social Security and other federal government checks deposited into established accounts beyond the time required to receive credit for the checks.
- ° Consider whether it is practical to take into account individual factors that may indicate whether a risk of loss exists so as to warrant a delay in availability. These factors might include, for example, the length of time the account has been maintained, past experience with the depositor, the identity of the drawer, the type of check, and the location of the payor depository institution.
- ° Provide a means for depositors to request an exception from the standard delay policy, and inform depositors of this possibility.

I hope that you will be willing to join us in developing and issuing a policy statement of this type.

In light of the interest in this issue we would like to issue a statement as soon as possible. Vice Chairman Martin, who testified on behalf of the Board at the Senate hearings on delayed availability in September and has recently been meeting with industry representatives, will be contacting you shortly to set up a meeting to discuss this matter further.

Sincerely,