

FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 7869]
May 6, 1976

PROPOSED AMENDMENT TO REGULATION Q

Clarification of Proposal to Authorize the Transfer of Funds
from Savings Accounts to Cover Check Overdrafts

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

Following is the text of a statement issued April 29 by the Board of Governors of the Federal Reserve System announcing a clarification of its earlier proposal (contained in our Circular No. 7841, dated March 18, 1976) to permit member banks to transfer funds from a depositor's savings account to cover checking account overdrafts, and an extension of the period during which public comment may be made on the proposal:

The Board of Governors of the Federal Reserve System today published a statement supplementing an earlier proposal that would authorize transfers of funds from savings accounts to cover check overdrafts. The statement makes clear that such transfers can be made only upon the voluntary action of depositors.

In view of today's action, the Board extended the period for comment by 30 days, to June 14, 1976.

The Board published the clarification after receipt of comments indicating that the proposal, first made public March 15, 1976, could be misunderstood as permitting banks to transfer funds from savings to checking accounts without customer approval.

As indicated in the first announcement, overdraft protection transfers could be made only on the basis of a voluntary agreement by the depositor with his bank. The Board's present Regulation Q does not permit banks to enter into such agreements.

The proposed service would permit customers to instruct their banks—also on an entirely voluntary basis—to transfer funds automatically from a savings to a checking account when the checking account falls below a minimum level set by the customer.

The supplementary announcement also made it clear that banks may make a service charge for overdraft protection transfers, if the service charge equals or exceeds 30 days' interest on the amount transferred.

Printed on the reverse side is the text of the Board's notice. The period for submitting comments on the proposal has been extended to June 14; such comments may be sent to our Bank Regulations Department.

PAUL A. VOLCKER,
President.

(OVER)

[Reg. Q]

PART 217—INTEREST ON DEPOSITS

(Docket No. R-0027)

Clarification of Notice of Proposed Rulemaking
Withdrawals from Savings Deposits

On March 15, 1976, the Board of Governors of the Federal Reserve System invited public comment on a proposed amendment to Regulation Q (Interest on Deposits) to permit banks that are members of the Federal Reserve System to transfer funds automatically from savings accounts to demand deposit (checking) accounts when the customers' demand deposit account balances are insufficient to permit payment by the bank of checks that the customers had written (41 FR 12039). The proposed service would permit customers to instruct their banks to add funds automatically to a demand deposit account when a balance has fallen below a specified level. Such a service is not permitted at this time under the provisions of Regulation Q.

In reviewing the comments that have been received to date on this proposal, it has been found that several comments evidence some misunderstanding concerning the operation of the proposed overdraft service. This statement is being issued to clarify the Board's proposal concerning overdraft transfers from savings accounts.

The overdraft service proposed by the Board is completely voluntary. Bank customers will not be required to obtain the transfer service. Banks would not be authorized to transfer a depositor's funds from a savings account unless the depositor voluntarily had entered into an agreement previously with the bank specifically authorizing this transfer practice.

The overdraft service was proposed to provide depositors with an alternative to existing procedures in those instances where there are insufficient funds in depositors' checking accounts. Generally, if a customer's check is presented to the bank and there are insufficient funds in the customer's checking account, the check is returned to the payee with the term "insufficient funds" indicated on the check. As a result, the bank usually charges a fee to the customer when it is necessary to return these checks. As an alternative to returning checks, many banks currently advance funds to customers in accordance with overdraft loan agreements. Under such overdraft loan agreements, the bank charges customers interest on the funds advanced.

The Board's proposal is intended to provide an additional alternative available to bank customers in order to permit them to avoid having checks returned because of insufficient funds in their checking accounts. As proposed, a depositor by prior agreement could instruct the bank to transfer funds from his or her savings account to his or her checking account in the event there are insufficient funds in the checking account to

cover checks that have been presented for payment. The service could also be used to replenish the customer's checking account if the depositor wishes to maintain a specified minimum balance in the checking account.

The proposal would permit depositors to transfer funds in multiples of \$100 or more. In addition, the depositor would be required to forfeit at a minimum an amount equivalent to at least 30 days' interest on the funds transferred. The Board believes that the forfeiture of interest provision aids in preserving the effectiveness of the statutory prohibition against the payment of interest on demand deposits. The proposed minimum forfeiture amount would be approximately \$.42 per \$100 transferred if the bank pays interest at a rate of 5 per cent on its savings deposits. Member banks, however, would be permitted to impose any service charge for such transfer services provided such charge equals or exceeds the minimum forfeiture amount specified in the proposal and had been agreed upon by the bank and its depositor. The Board believes that this penalty would compare favorably with service charges now imposed by banks for processing returned checks or for lending money to the depositor to cover these checks.

If adopted, the Board believes that the overdraft service could reduce the number of checks that are returned through the check clearing operations of the banking system and could result in a substantial savings for customers, businessmen, bankers, and the Federal Reserve System.

Accordingly, further public comment is requested on this proposal and on whether some other minimum forfeiture would be appropriate and whether transfers of denominations different from the proposed \$100 minimum would be appropriate.

In view of the above, the Board has extended the comment period for an additional 30 days. 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 June 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.

By order of the Board of Governors, April 29, 1976.