

Q What are NOW accounts?

A Functionally, they are interest-bearing checking accounts. Instead of writing a check, the consumer writes a so-called negotiable order of withdrawal, or NOW. It will look exactly like a check, however, and it will substitute perfectly for checks in day-to-day use. Advertisements may even call it an "interest-bearing check." The attraction for the consumer, of course, is that NOW accounts pay interest while conventional checking accounts do not.

NOW Accounts Go Nationwide

with William N. Cox III

Q Where can I open a NOW account?

A Beginning December 31, 1980, depository institutions in all 50 states will be able to offer them to households and nonprofit organizations. Many banks, savings and loan associations, and credit unions in the Southeast are putting the finishing touches on their plans to compete for these accounts.

Q Are NOWs money?

A Yes. They function as money. The word "negotiable" in NOW means they can be used for transactions, just like checks. It does not imply, by the way, that any "negotiation" (in the sense of bargaining) is involved. The Federal Reserve includes NOW balances in its definitions of the nation's money stock. To ensure the Fed's control over that money stock for purposes of monetary policy, every NOW-issuing institution will be required to meet reserve requirements against such accounts.

Among the sweeping changes initiated by the "Omnibus Banking Act" (officially the Depository Institutions Deregulation and Monetary Control Act of 1980), is the provision allowing nationwide Negotiable Order of Withdrawal (NOW) accounts by the end of 1980. Although available in New England for several years, NOW accounts will be new to the Southeast. In the following question and answer format, Associate Director of Research Bill Cox provides a basic introduction to NOW accounts.

What about here in the Southeast? Are there any NOW-type accounts available today?

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There are some substitutes, but they are generally more complicated than NOWs. An individual can ask his bank, for example, to cover checks charged against his checking account by shifting funds automatically from his savings account. A few savings and loan associations and credit unions also offer telephone transfers or share drafts, respectively. Some brokerage houses allow qualifying customers to write checks, in effect, against their stock or other investment holdings.

Is there anything resembling a NOW account available today?

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Yes. NOWs have been available for several years at many financial institutions in New England and New York. Consumers there have accepted the new account enthusiastically, and financial institutions there have found them feasible. The New England experience with NOWs provided much of the impetus to expand NOWs nationwide.

You imply that NOW accounts will begin to replace these other specialized arrangements next year. Is that right?

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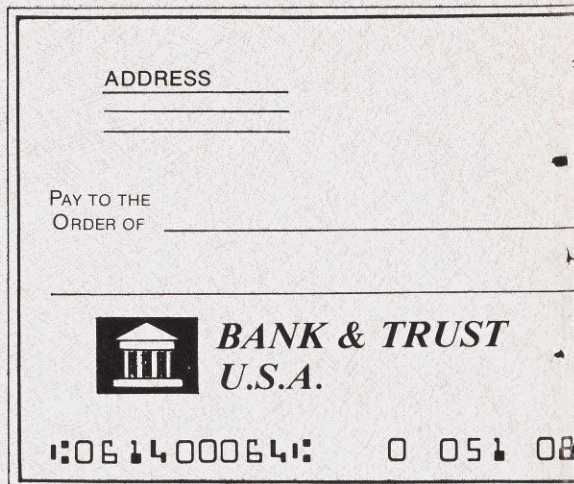
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Generally, yes. NOW accounts will be simpler, more widely available, and closer to the checking account setup most people are already used to. The other systems will not disappear entirely, but the New England experience suggests quite strongly that NOWs will comprise most of the interest-bearing checking-type accounts.

Negotiable Order of

Q Why cannot banks and other institutions just pay interest on checking account balances?

A Payment of explicit interest on a checking account has been prohibited by law since the early 1930s. The so-called Omnibus Banking Act, signed by President Carter at the end of March, specifically legalizes nationwide NOWs beginning December 31, 1980.



NOW s will be virtually indisting

Q What do you mean by “explicit interest on a checking account?”

A Most checking accounts already earn *implicit* interest in the form of services performed by a bank — services like processing and keeping track of checks. Studies at the Federal Reserve Board several years ago estimated that the average cost of such services was equivalent to an explicit 4½-percent rate of interest on household checking accounts. These services substitute for explicit interest. So the checking account customer generally “pays” for check processing and bookkeeping services by letting his bank use his checking account balance at zero explicit interest.

Q But with NOW accounts, that will change.

A Right. What we have found in New England, and will probably find in the Southeast, is that NOW-issuing financial institutions will be unwilling to pay explicit interest on NOW account balances without reducing implicit interest in the form of free services. People opening NOW accounts next year will generally find themselves paying service charges for checking-type services they are now getting free, or for below cost.

Withdrawal

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_____ \$ _____	
	DOLLARS

Withdrawable from checks.

Q More institutions will be offering NOWs than just banks, then?

A Yes. Savings and loan associations and credit unions. In New England, banks generally have set high minimum balance requirements for NOW accounts, thereby retaining high-balance customers. Savings and loan associations there, in contrast, have generally tried to attract smaller accounts as a source of "core" deposits. Most experts expect the same pattern to emerge in the Southeast and elsewhere in the country.

Q Will the explicit interest on a NOW account be lower than on a conventional savings (passbook) account?

A It may well be. That will be up to how each individual institution decides how to put together its combination of explicit interest paid, checking services offered, minimum balances required, and whether or not NOWs are offered separately or as part of a package of other financial services. In addition, until Regulation Q is phased out, the maximum legal interest rate on NOWs likely will be set below the ceiling on regular savings accounts.

Q Will NOWs be a good deal for the consumer, then?

A They won't be for everyone. The person who now carries a large checking account balance and writes only a few checks a month will most likely find NOWs very attractive; the low-balance customer writing many checks may not find it so. In general, though, the consumer will have more options available, and that is a plus. ER

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