

## Is A New Type of Checking Account Around the Corner?

Larry E. Price  
*Georgia Southern College*

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## COMMENTARY

### *IS A NEW TYPE OF CHECKING ACCOUNT AROUND THE CORNER?*

Larry E. Price

Congress, in its infinite wisdom, enacted numerous laws during the decade of the 1930's designed to strengthen and restore the depression-ravaged economy of our nation. One of these laws, the Banking Act of 1933<sup>1</sup>, provided in part that:

No member bank shall, directly or indirectly by any device whatsoever, pay an interest on any deposit which is payable on demand.<sup>2</sup>

Thus ended the practice that had prevailed at many banks during the era of the 1920's of paying interest on checking account balances.

It is not at all clear to the bank customer of today just what public benefit obtains from the retention of this interest payment prohibition, if indeed there ever was any such benefit. As a matter of fact, many banks do provide "indirect" interest through services to bank customers at less than cost, such as the "free" checking accounts offered by many urban banks.

The opening shot of what has now become a closely watched battle between regulators and both bank and non-bank savings institutions was fired in July, 1970, when the Worcester, Massachusetts Consumer Savings Bank sought permission to introduce what have come to be called NOW (Notice of Withdrawal) accounts<sup>3</sup>.

Without dwelling on all the mechanical and technical details involved, it is simple to describe the NOW account. It is simply an interest-bearing savings account on which one can, for all practical purposes, write a check, thus neatly circumventing both the intent and the spirit of the prohibition of 1933 which still applies to commercial banks. Both state and federal bank regulators soon got into the act by issuing confusing and sometimes conflicting rules and interpretations on the legal status of NOW accounts.

Because savings banks, the instigators of NOW accounts, are a type of financial intermediary not usually found in the Southern states (savings banks are concentrated in the North-eastern states), it first appeared that neither the controversy nor the public benefits of NOW accounts were likely to be available in this region.

However, this is no longer certain to be the case. Both Houses of Congress held hearings in early 1973 to consider the future status of NOW account regulation at the Federal

level.<sup>4</sup> These debates eventually resulted in the enactment of PL 93-100 which authorized, on an experimental basis, the offering of NOW accounts by most kinds of financial institutions in both Massachusetts and New Hampshire including **commercial banks**.

The original package of bills proposed by the administration in 1973 included a provision to extend these privileges nationwide. At this writing no such plan has, of course, been adopted.

Perhaps it is still too early to fully evaluate the results of the NOW experiment to determine its success. Yet, by most obvious measures, it has proven popular with the customers. During the first ten months of the experiment, well over 100 financial institutions began to offer to the public NOW accounts which rather quickly totalled nearly \$300 million.

Will bank customers in Southern states have an opportunity to have not only "free" checking accounts but also checking accounts on which they receive interest? Only Congress and state bank regulators hold the key to that question. We Southerners will simply have to wait and see whether the privileges of NOW accounts are made available to us.

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<sup>1</sup>Public Law No. 66, 73d Congress.

<sup>2</sup>Sec. 11 (b).

<sup>3</sup>Early History and Initial Impact of NOW Accounts," **New England Economic Review**, Federal Reserve Bank of Boston, Jan/Feb, 1975, p. 19.

<sup>4</sup>Extension of Regulation Q and NOW Accounts, Hearings before the Subcommittee on Financial Institutions of the Committee on Banking, Housing and Urban Affairs, U. S. Senate, 93rd Congress and **Regulation Q NOW Accounts**, Hearings before the Subcommittee on Bank Supervision and Insurance of the Committee on Banking and Currency, House of Representatives, 93rd Congress.

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Dr. Price is Professor of Finance and Chairman, Department of Finance and Law in the School of Business, Georgia Southern College.