COMPTROLLER OF THE CURRENCY

FEDERAL DEPOSIT INSURANCE CORPORATION

FEDERAL HOME LOAN BANK BOARD

FEDERAL RESERVE SYSTEM

Delayed Availability of Funds;
Issuance of a Policy Statement

AGENCIES: Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and Board of Governors of the Federal Reserve System.

ACTION: Issuance of a policy statement.

SUMMARY: The agencies are issuing this policy statement to encourage and assist industry efforts in voluntarily addressing the problems caused by some financial institutions when they delay a depositor's ability to withdraw funds deposited by check -- often called "delayed availability of funds." The policy statement calls for those financial institutions that delay availability to review and disclose their policies, and to refrain from imposing unnecessary delays on all checks, particularly on Social Security and other government checks. In reviewing their availability policies, institutions are asked to consider taking into account factors that indicate whether a given situation presents a risk of loss and to provide a means for depositors to request that an exception be made to the standard hold policy.

EFFECTIVE DATE: March 22, 1984.

FOR FURTHER INFORMATION CONTACT: William Grant, Office of the Comptroller of the Currency, (202) 447-1938; Paul Sachtleben, Federal Deposit Insurance Corporation, (202) 389-4761; Richard Tucker, Federal Home Loan Bank Board, (202) 377-6211; or Gerald Hurst, Board of Governors of the Federal Reserve System, (202) 452-3667.

SUPPLEMENTARY INFORMATION: (1) General. Delayed availability -- the practice by some financial institutions of delaying a customer's ability to withdraw funds deposited by check for several days after the date of deposit -- has been an issue of concern for several years.

Interest in limiting or restricting the delayed availability practice has increased recently both at the state and federal level. Two states, New York and California, have enacted laws addressing the issue and several other states are considering legislation. In addition, there are bills pending in both houses of Congress.

The agencies believe that the practice of delaying availability results in problems for depositors, especially when the policy is inflexible or is not disclosed to depositors in an effective manner. Institutions maintain that the practice of delaying a depositor's ability to withdraw funds beyond the time it takes the institution to receive provisional credit for the check is justified to some extent because of the time it takes for a check to be returned to the institution of first deposit if it is not paid by the paying institution. They state that the only way an institution learns that a deposited check is being returned unpaid is to receive the check back; thus, there is a risk of loss. However, only about one percent of all checks are returned unpaid and only a very small percentage of these checks result in actual losses to financial institutions. While it may be true that the frequency of losses is small because of delayed availability policies and that the potential for losses is much larger, the agencies nevertheless believe that the practice of imposing delays on all deposited checks without regard to whether a particular situation presents a potential risk (for example, the deposit of an unusually large personal check into a new account) does not appear to be justified by the risk of loss. More specifically, for example, there is normally no justification for delaying availability on a Social Security or other government check deposited into an established account beyond the date when an institution receives credit for the check. The real risk of loss in such cases results from fraud, which typically would not be discovered until long after the check has cleared.

The agencies believe that voluntary industry action, rather than mandatory requirements, represents a potential solution to many of the problems caused by delayed availability, without the costs and burdens of a legislative or regulatory approach. The agencies are, therefore, issuing a policy statement that outlines their concerns and recommending actions to be taken by the industry in the hope that it will encourage and assist voluntary industry action.

(2) Discussion of policy statement. The policy statement calls on financial institutions that delay availability to take several actions. Institutions are asked to review their policies, consider whether the delay periods can be reduced, and disclose their policies to customers in an effective manner. Institutions are also asked to refrain from imposing unnecessary delays on all checks, particularly delays on government checks deposited into established accounts beyond the time required for the institutions to receive credit for the checks. In reviewing their policies, institutions are asked to consider various factors that might indicate whether a risk of loss exists in a given situation that justifies a delay in availability and to provide depositors with a means for requesting that an exception be made from the standard hold policies.

The actions recommended are based on the agencies' belief that, although it is appropriate to delay availability in some specific situations, it is not necessary for financial institutions to delay availability on all deposited checks. By pointing out specific actions that institutions can take, the agencies hope that the policy statement will be a basis for industry action. As the statement indicates, the agencies plan to monitor developments in the area to determine whether further steps are needed.

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JOINT POLICY STATEMENT ON DELAYED AVAILABILITY OF FUNDS

The Comptroller of the Currency, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, and Federal Reserve Board are issuing this policy statement regarding the practice by financial institutions of delaying a depositor's ability to withdraw funds deposited by check -- often called "delayed availability of funds." The agencies are concerned about the problems this practice causes for depositors and believe that voluntary action on the part of all financial institutions to reduce these problems would be the most efficient, least costly, and least burdensome solution.

An increasing number of financial institutions delay a depositor's ability to withdraw funds in order to reduce their risk of loss if a deposited check is returned unpaid. However, financial institutions need not impose such delays on every deposited check in order to reduce the risk. In fact, some delayed availability policies may be inequitable. The agencies believe that there are actions that financial institutions can take now to eliminate some of the problems.

The agencies believe that financial institutions that delay availability should:

(1) Review their policies and consider reducing the delay periods to the extent possible, consistent with prudent business practices.

(2) Disclose their policies to depositors in an effective manner 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.

(3) Refrain from imposing unnecessary delays on all checks, particularly delays on Social Security and other government checks deposited into established accounts beyond the time required to receive credit for the checks. (A delay beyond this time is generally inappropriate since the real risk is that of fraud, which ordinarily will not be discovered until long after the check has cleared.)

In reviewing their policies, institutions should take into account factors that indicate whether a given situation presents a risk of loss that justifies a delay in availability. These factors may 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. In addition, institutions should consider providing, as part of their policy, a means for depositors to request that an exception be made from the standard delay practice and inform depositors of this possibility.

The agencies hope that the problems caused by delayed availability policies can be addressed by voluntary industry action, and urge trade groups and individual institutions to act. The agencies will be monitoring the effectiveness of these voluntary efforts to determine the extent to which disclosure is being made and the nature of specific delayed availability policies. Consumer surveys will also be conducted to determine the level of consumer awareness of delayed availability policies and the extent of consumer problems.

If it appears that voluntary action is inadequate to address the delayed availability issue, the agencies will consider further action to deal with the practice and the problems it causes.

Dated: March 22, 1984

By order of the Office of the Comptroller of the Currency.

John F. Downey
Chief National Bank Examiner

By order of the Federal Deposit Insurance Corporation.

Hoyle L. Robinson
Executive Secretary

By order of the Federal Home Loan Bank Board.

J. J. Finn
Secretary to the Board

By order of the Board of Governors of the Federal Reserve System.

William W. Wiles
Secretary of the Board

TABLE 1

CHECK CLEARING AND RETURN TIMES

Check Drawn on	Number of Business Days after Deposit to Clear	Additional Days to Return	Total Days*	Established Percent of Checks Collected
1. Depositing institutions	0 to 1	N/A	0 to 1	30
2. Treasury	0 to 1	N/A**	0 to 1	2
3. Local clearing house members	1	1	2	16
4. Institutions within same State	1 to 2	1 to 2	2 to 4	***
5. Institution within same State clearing through correspondents	1 to 2	1 to 4	2 to 6	***
6. Out-of-State institutions	1 to 3	1 to 6	2 to 9	***

* Times indicated do not take into account errors such as misrouting or damaged checks that cannot be processed through automated procedures. Although such situations affect less than 5 percent of all checks collected, they can add up to 5 days onto collection and return times. An additional one to four days may be added if the returning institutions use the mail to return the check to the prior endorser.

** Treasury checks can be returned for up to 6 years due to forgeries, etc.

***Reliable data are not available to breakdown check clearing by intra and inter state. However, for checks handled by the Federal Reserve 60 percent are cleared within the same Federal Reserve Bank and 40 percent involves banks in two different zones.

Source: Federal Reserve System

TABLE 2

CHECK VOLUME

Number of checks written		36 billion
Number of checks handled by F·d		14.2 billion
Percent of checks returned		1 percent
Number of checks returned		360 million
Reasons for checks being returned:	Nonsufficient Funds	71.2 percent
	Uncollected Funds	2.7
	Account Closed	4.4
	Stop Payment	2.7
	Missing Endorsement	4.9
	Other	14.1 percent
Dollar Breakdown on Returned Checks		
	Less than $100	63 percent
	$100 to $1000	28 percent
	Over $1000	9 percent

Source: 1981 Bank Administration Institute Survey and the Federal Reserve System

TABLE 3

CHECK COLLECTION COSTS
1981 - 1982

Costs to Corporations	
Issuance	$0.20 - $0.44
Deposit and collection	up to $1.50
Costs to Banks	
Processing	$0.24 to $0.50
Returned checks (including losses)	$0.36
Costs to Federal Reserve	
Processing	$0.03
Returned checks	$0.14

Source: Federal Reserve System and Private Sector Studies