FEDERAL RESERVE BANK
OF DALLAS

ROBERT D. McTEER, JR.
PRESIDENT
AND CHIEF EXECUTIVE OFFICER

DALLAS, TEXAS 75222

October 2, 1991

Notice 91-82

TO: The Chief Executive Officer of each member bank and others concerned in the Eleventh Federal Reserve District

SUBJECT

Regulation D (Reserve Requirements of Depository Institutions)

DETAILS

This notice is issued (1) to provide guidance to depository institutions in the Eleventh District that may be offering an account arrangement to some customers that combines a money market deposit account (MMDA) with a demand deposit account and (2) to assure awareness of the proper treatment of these account arrangements for reserve purposes. The terms of the arrangements and the way the depository institutions report the deposits can, in some instances, constitute violations of the Federal Reserve Board's Regulation D--Reserve Requirements of Depository Institutions (12 C.F.R. Part 204).

A depository institution may allow a customer to create overdrafts in a demand deposit account during the week and then pay off the aggregate overdraft at the end of the week with one transfer from the MMDA. The rate of interest paid on the money market deposit account equals the rate of interest charged on the overdraft line of credit, and the number of transfers from the MMDA to cover the overdrafts would never exceed the regulatory limit of six per month that applies to automatic, interaccount transfers. The depository institution may not be in compliance with Regulation D if it considers the demand account balance as zero when it calculates its "transaction accounts" and includes the balance in the MMDA in its "time deposits" when it files Form FR 2900 (Report of Deposits) under Regulation D.

Under Section 204.2(e)(5) of Regulation D, a "transaction account" includes

> Deposits or accounts maintained in connection with an arrangement that permits the depositor to obtain credit directly or indirectly through the drawing of a negotiable or nonnegotiable check, draft, order or instruction or other similar device (including telephone or electronic order or instruction) on the issuing institution that can be used for the purpose of making payments or transfers to third persons or others, or to a deposit account of the depositor.

This provision was added to Regulation D in 1982 (47 Fed. Reg. 58218 (December 30, 1982)) because arrangements involving time deposits and credit lines are effective substitutes for transaction accounts and provide the opportunity for avoidance of transaction account reserve requirements. This language clearly covers the type of account arrangement described above.

Violations of Regulation D could result in the assessment of a reserve deficiency charge under Section 204.7 of Regulation D, as well as civil money penalties under Section 19(l) of the Federal Reserve Act (12 U.S.C. Section 505) or Section 18 of the Federal Deposit Insurance Act (12 U.S.C. Section 1828).

MORE INFORMATION

For more information, please contact Dean Pankonien at (214) 651-6228. For additional copies of this Bank's notice, please contact the Public Affairs Department at (214) 651-6289.

Sincerely yours,

Robert D. McTeer, Jr.