FEDERAL RESERVE BANK
OF NEW YORK

[Circular No. 9444
January 25, 1983]

MONEY MARKET DEPOSIT ACCOUNT

Treatment Under Reserve Requirement Regulations

*To All Depository Institutions in the Second
Federal Reserve District, and Others Concerned:*

Printed on the following pages is the text of a letter from the Board of Governors of the Federal Reserve System clarifying Regulation D, ''Reserve Requirements of Depository Institutions,'' with regard to depository institutions making account arrangements that integrate the new federally insured Money Market Deposit Account (MMDA) with the new $2,500 NOW account (''Super NOW'') for the purpose of avoiding transaction account reserve requirements.

Additional copies of this circular will be furnished upon request directed to the Circulars Division of this Bank. Questions regarding Regulation D may be directed to the following:

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ANTHONY M. SOLOMON,
President.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON, D. C. 20551

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 18, 1983

It is our understanding that at least one depository institution is offering, and several institutions have inquired about offering, an account arrangement that integrates both a Money Market Deposit Account ("MMDA") and a $2,500 NOW account ("Super NOW"). Under the arrangement, the depositor would initially open an MMDA. If the depositor actually exceeds the permissible number of transfers per month (six preauthorized, automatic, or telephone transfers, no more than three of which may be checks), the account automatically would be converted to a Super NOW the first time a transfer occurs in excess of the limit. The account would remain a Super NOW for the rest of the statement cycle. At the beginning of the next statement cycle, the account would be converted back to an MMDA and the procedure would recommence. The underlying objective of such an arrangement is to allow the institution to report the account as a savings deposit for that part of the statement cycle during which the account is regarded as an MMDA, thereby avoiding transaction account reserve requirements.

Under Regulation D--Reserve Requirements of Depository Institutions (12 CFR Part 204), the account arrangement described above is regarded as a transaction account at all times and should be reported as such since the arrangement permits the depositor to make more than six preauthorized or telephone transfers and draw more than three checks per month. It is well established under Regulation D that the characterization of an account as a transaction account is dependent upon whether the depositor has the ability to effectuate certain transactions rather than whether such transactions actually occur. In the account arrangement in question, the depositor is authorized to effectuate transactions in excess of the limit for an MMDA and the purported existence of two accounts is merely a device to avoid reserve requirements. Any such arrangement must be reported as a Super NOW at all times and not as an MMDA. In addition, permitting an account to shift status as proposed would greatly complicate the interpretation of the monetary aggregates.

In establishing the reserve requirements applicable to the MMDA, the Board indicated that an MMDA will not be regarded as a "transaction account" if an institution follows the DIDC's procedures in 12 CFR § 1204.122(e)(2) for limiting the number of transfers that may be made by an accountholder. Under DIDC regulations, a depository institution may monitor MMDAs on an *ex post* basis and contact depositors who exceed those limits on more than an occasional basis. It should be noted that an MMDA subject to such procedures is not a transaction account even if the customer has made inadvertent transfers in excess of the limit during the month and such accounts are not to be reported as transaction accounts. For customers that continue to exceed the transactions limit after being contacted, the institution is required to close the account or take away the transactions capability.

Sincerely yours,

William W. Wiles

William W. Wiles
Secretary

TO THE PRESIDENTS OF ALL FEDERAL RESERVE BANKS AND
OFFICERS IN CHARGE OF BRANCHES