# Regulation D[1]
# Reserve Requirements

## Background

Regulation D imposes reserve requirements on certain deposits and other liabilities of depository institutions[2] solely for the purpose of implementing monetary policy. It specifies how depository institutions must classify different types of deposit accounts for reserve requirements purposes.

## Types of Deposits Covered

Regulation D imposes reserve requirements on ''transaction accounts,'' ''nonpersonal time deposits,'' and ''Eurocurrency liabilities.''[3] However, ''nonpersonal time deposits'' and ''Eurocurrency liabilities'' have been subject to a zero percent reserve requirement since the early 1990s. Accordingly, ''transaction accounts'' are the only category of deposit that is currently subject to a positive reserve requirement under Regulation D. Depository institutions are still required to classify their liabilities according to the Regulation D definitions of ''transaction accounts,'' ''savings deposits,'' ''time deposits,'' or ''Eurocurrency liabilities'' in connection with filing mandatory FR 2900 deposit reports.[4]

### Transaction Accounts

A *transaction account* is an account from which the depositor or account holder is permitted to ''make transfers or withdrawals by negotiable or transferable instrument, payment order of withdrawal, telephone transfer, or other similar device for the purpose of making payments or transfers to third persons or others or from which the depositor may make third-party payments at an automated teller machine or a remote service unit, or other electronic device, including by debit card . . .''[5] The following types of accounts are ''transaction accounts'' under Regulation D:

- Demand deposit accounts
- NOW accounts

Savings deposit accounts are specifically excluded from the definition of transaction account, even though they permit third-party transfers, provided that the depository institution complies with the transfer and withdrawal limitations applicable to ''savings deposits'' under Regulation D.[6]

Transaction accounts have the following characteristics:

- limited to demand, NOW, and ATS accounts
- permit a depositor or account holder to make unlimited transfers or payments to third parties
- permit a depositor to make unlimited transfers between accounts of the same depositor at the same institution

#### *Demand Deposit Accounts*

Demand deposit accounts are payable on demand, or a deposit issued with an original maturity or required notice period of less than seven days, or a deposit representing funds for which the depository institution does not reserve the right to require at least seven days' written notice of an intended withdrawal. There are no eligibility restrictions on this type of account.

Demand deposits may also include deposits that were incorrectly classified as another type of deposit—for example, savings deposits for which the transfer or withdrawal limitations have been exceeded—and matured time deposits.

Demand deposit accounts have the following characteristics:

- no maturity period (or an original maturity of less than seven days)
- payable on demand (or on less than seven days' notice)
- may be interest-bearing

1. This section previously described the requirements of Regulation Q, which prohibited the payment of interest by member banks on demand deposits. However, Section 627 of the Dodd-Frank Act repealed Section 19(i) of the Federal Reserve Act (12 USC 371 a), the statutory prohibition against payment of interest on demand deposits, effective July 21, 2011. Accordingly, Regulation Q was repealed effective as of that date. See 76 Fed. Reg. 42015 (July 18, 2011).

2. All depository institutions, including commercial banks, savings banks, savings and loan associations, credit unions, and agencies and branches of foreign banks located in the United States, are subject to reserve requirements. Institutions must satisfy reserve requirements by holding cash in their vaults or, if vault cash is insufficient, as a balance in account at a Federal Reserve Bank (either an account of the institution or an account of the institution's pass-through correspondent under section 204.5(d)).

3. 12 CFR 204.4(f) (reserve requirement ratios for transaction accounts, nonpersonal time deposits, and Eurocurrency liabilities).

4. See generally 12 CFR 204.2 (definitions).

5. 12 CFR 204.2(e) (definition of ''transaction account'').

6. Regulation D requires that an account, to be classified as a ''savings deposit,'' must not permit more than six convenient transfers or withdrawals per month from the account. Transfers and withdrawals that are considered ''convenient'' for this purpose are those made by preauthorized, automatic, telephonic agreement, order or instruction, or by check, debit card, or similar order made by the depositor and payable to third parties. 12 CFR 204.2(d)(2).

- no limit on the number of withdrawals or transfers an account holder may make
- no eligibility requirements

### *NOW Accounts*

NOW (negotiable order of withdrawal) accounts allow an unlimited number of third-party payment and other transactions and are classified as transaction accounts under Regulation D. Like ''savings deposits,'' the depository institution must reserve the right at any time to require seven days' written notice of an intended withdrawal in order to classify the account as a ''NOW account'' under Regulation D (in practice, this right is rarely, if ever, exercised). Unlike ''savings deposits,'' however, NOW accounts are available only to individuals; governmental units; and corporations, partnerships, associations, and organizations that are operated primarily for religious, philanthropic, charitable, educational, fraternal, or other similar purposes and not for profit.

A depositor may access funds in a NOW account in the same manner as a depositor may access funds in a demand deposit account. For example, NOW account holders may use negotiable instruments (checks), drafts, telephonic or electronic orders or instructions, or other similar devices to make payments or transfers to third persons or to others. A NOW account holder may make an unlimited number of transfers to another of his or her accounts at the same institution.

NOW accounts have the following characteristics:

- have no maturity date
- institution must reserve the right at any time to require at least seven days' prior written notice of an intended withdrawal
- permit unlimited transactions (transfers and withdrawals)
- may be accessed by check, draft, telephonic or electronic order or instruction, or other similar instrument to
  - pay third parties or others
  - transfer funds to another of the depositor's accounts at the same institution
- may be held only by individuals, governmental units, and nonprofit organizations
- are classified as transaction accounts under Regulation D

## Nontransaction Accounts

### *Time Deposits*

Time deposits are accounts that have a maturity of at least seven days from the date of deposit. They may be payable on a specified date not less than seven days after the date of deposit, or after the expiration of a specified period of time not less than seven days after the date of deposit (for example, thirty days after the date of deposit). Time deposits may also be payable upon receipt of written notice from the depositor (required in the contract) not less than seven days prior to withdrawal. If funds are withdrawn from a time deposit account within six days of the date of deposit or within six days of the most recent partial withdrawal, the specified early withdrawal penalty must be imposed (see ''Early Withdrawal Penalties'' below). There are no restrictions on who may hold a time deposit.

Time deposits may be negotiable or nonnegotiable, transferable or nontransferable. They may be represented by a certificate, instrument, pass-book, statement, book-entry notation, or otherwise. If the deposit is automatically renewable, that fact should be indicated on the certificate or other representation, along with the terms of renewal.

Time deposit accounts have the following characteristics:

- must have a maturity of at least seven days from the date of deposit
- may require at least seven days' prior written notice of intent to withdraw funds
- must be subject to early withdrawal penalties if funds are withdrawn within six days of the date of deposit or within six days of the date of the immediately preceding partial withdrawal
- may be interest-bearing
- may be evidenced by a negotiable or nonnegotiable, transferable or nontransferable certificate, instrument, passbook, book entry, or other similar instrument
- include club accounts (such as Christmas club or vacation club accounts)
- no eligibility requirements

*Early Withdrawal Penalties.* The presence (or absence) of an early withdrawal penalty differentiates time deposit on the one hand from other kinds of accounts on the other hand. The early withdrawal penalty must be at least seven days' simple interest on amounts withdrawn within the first six days after deposit (or within six days after the most recent partial withdrawal). If funds are withdrawn more than six days after the date of deposit or more than six days after the most recent partial withdrawal, no interest penalty is required under Regulation D.

Penalties listed under Regulation D are the minimum federal penalties required by Regulation D and the Federal Reserve Act. Banks are free to impose greater penalties by contract with the depositor.

If a bank fails to impose early withdrawal penalties when they are required by Regulation D, the account may not be classified as a time deposit. If the account meets all the necessary requirements for a savings deposit account, the bank may reclassify it as such. Otherwise, the account must be reclassified as a transaction account.

The early withdrawal penalties applicable to time deposits must be part of the institution's deposit agreement with the depositor. During the compliance examination, examiners should check that the bank has early withdrawal penalties in place that are at least equal to those required by Regulation D. As part of the examination, examiners should also verify the accuracy of the interest penalties assessed on a sample of time deposits from which early withdrawals were permitted.

### *Savings Deposits*

Savings deposits generally have no specified maturity period. They may be interest-bearing, with interest computed or paid daily, weekly, quarterly, or on any other basis.

The two most significant features of savings deposits are the ''reservation of right'' requirement and the restrictions on the number of ''convenient'' transfers or withdrawals that may be made per month (or per statement cycle of at least four weeks) from the account. In order to classify an account as a ''savings deposit,'' the institution must in its account agreement with the customer reserve the right at any time to require seven days' advance written notice of an intended withdrawal. In practice, this right is never exercised, but the institution must nevertheless reserve that right in the account agreement. In addition, for an account to be classified as a ''savings deposit,'' the depositor may make no more than six ''convenient'' transfers or withdrawals per month from the account. ''Convenient'' transfers and withdrawals, for purposes of this limit, include preauthorized, automatic transfers (including but not limited to transfers from the savings deposit for overdraft protection or for direct bill payments) and transfers and withdrawals initiated by telephone, facsimile, or computer, and transfers made by check, debit card, or other similar order made by the depositor and payable to third parties. Other, less-convenient types of transfers, such as withdrawals or transfers made in person at the bank, by mail, or by using an ATM, do not count toward the six-per-month limit and do not affect the account's status as a savings account. Also, a withdrawal request initiated by telephone does not count toward the transfer limit when the withdrawal is disbursed via check mailed to the depositor.

Examiners should be particularly wary of a bank's practices for handling telephone transfers. As noted, an unlimited number of telephone-initiated withdrawals are allowed so long as a check for the withdrawn funds is mailed to the depositor. Otherwise, the limit is six telephone transfers per month. The limit applies to telephonic transfers to move savings deposit funds to another type of deposit account and to make payments to third parties.

The limit on telephone transfers applies to both business and personal accounts, but banks should handle accounts that exceed the limit differently. Generally, if a savings deposit account exceeds, or is authorized to exceed, the ''convenient'' transfer limit, the bank should take away the transfer and draft capabilities of the account or close the account and place the funds in another account that the depositor is eligible to maintain. If the depositor is a natural person, the funds may be placed in a NOW account. If the depositor is not a natural person, the bank may be required to reclassify the account as a demand account, as businesses are not allowed to hold NOW accounts.

Savings deposit accounts have the following characteristics:

- have no maturity
- institutions must reserve the right at any time to require at least seven days' written notice of an intended withdrawal (in practice, this right is rarely, if ever, exercised)
- may be interest-bearing
- allow no more than six transfers or withdrawals per calendar month or statement cycle of at least four weeks for the purpose of transferring funds to another of the depositor's accounts at the same institution or making third-party payments by means of preauthorized, automatic, or telephonic transfers or transfers or withdrawals made by check, debit card, or other similar order made by the depositor and payable to third parties
- allow unlimited withdrawals by mail, messenger, ATM, in person, or by telephone (via check mailed to the depositor)

- have no eligibility requirements
- must be reclassified as a transaction account if withdrawal or transfer limits are exceeded
- may be reclassified as NOW accounts if held by a natural person and the withdrawal or transfer limits are exceeded
- includes money market deposit accounts (MMDAs)

### *Money Market Deposit Accounts*

Before the mid-1980s, money market deposit accounts (MMDAs) had characteristics that distinguished them from ordinary savings deposit accounts. Now, however, they have the same characteristics as savings deposit accounts and are subject to the same transfer and withdrawal limits.

## Highlights of Regulation D that Affect Consumers

### *Reservation of Right*

In order for an account to be classified as a ''savings deposit'' under Regulation D, the institution must reserve the right at any time to require at least seven days' written notice of an intended withdrawal from savings accounts and from NOW accounts. In practice, institutions never exercise this reserved right, although it must nevertheless be part of the institution's account agreement with the depositor.

If all or a portion of the funds in a time deposit account are withdrawn within six days of the date of deposit or within six days of the date of the most recent partial withdrawal, the account must be subject to an early withdrawal penalty. This penalty, which is the minimum penalty that must be imposed, is at least seven days' simple interest on the amount withdrawn.

If an institution allows customers to make partial withdrawals from time deposits, the institution must impose the early withdrawal penalty on amounts withdrawn. For example, suppose a customer deposits $1,000 into a new time deposit on the 1st of the month, withdraws $100 on the 4th, and another $100 on the 9th. The customer would be subject to an early withdrawal penalty for the first $100 withdrawal in the amount of seven days' simple interest on $100, and another early withdrawal penalty for the second $100 withdrawal in the amount of seven days' simple interest on $100 because the second withdrawal occurred within six days of the first withdrawal. If the bank does not impose the minimum early withdrawal penalties on either withdrawal, the account ceases to be a ''time deposit'' and must be reclassified as either a savings account (provided the account meets the characteristics of a savings account) or a transaction account.