Introduction:

The Monetary Control Act was adopted in 1910 in response to growing availability of transaction accounts at non-Federal Reserve member banks. All institutions offering transaction accounts must comply with Regulation D.

The Federal Reserve Board’s (FRB) Regulation D became effective in 1980 and contains four primary provisions that affect depository institutions, including natural person credit unions, with more than $10.3 million in net transaction accounts. First, credit unions may be required to maintain reserves, which are commonly referred to as “sterile reserves” because the funds held in these reserve accounts do not earn interest. Second, credit unions may have to place limits on certain deposit accounts in order to avoid having to reserve against those accounts. Third, credit unions are required to impose certain penalties for early withdrawal from time deposit accounts in order to avoid having to reserve against the time deposit. Fourth, credit unions may be required to report account information to the FRB.

The FRB updates the provisions of Regulation D on a yearly basis.

Highlights:

1. **TYPES OF DEPOSITS COVERED.** Regulation D controls how the Credit Union defines certain terms and conditions of deposit accounts, because the characteristics of the accounts determine whether the Credit Union must reserve against the accounts. The following accounts are subject to Regulation D reserve requirements:

   A. **Transaction Accounts.** For purposes of Regulation D, “transaction accounts” are defined as those accounts that allow unlimited third party transfers and do not impose early withdrawal penalties. The following types of accounts are transaction accounts:

   i. Primary share draft (S75).
   ii. Secondary share draft (S74).
   iii. Drafts back account (S77).
   iv. Business share draft (S78).

   B. **Time Deposits.** “Time deposits” are defined as accounts where the member does not have the right to withdraw funds during the first six days from the date of the last deposit, unless the deposit is subject to an early withdrawal penalty. The Credit Union offers two types of “time deposits.” First, there are share certificates purchased for a period of 6 to 60 months. Secondly, there are individual retirement share certificates ranging from 18 to 60 months. Every share certificate for a natural person member must contain a specific statement that it is “not transferable” in order to be classified as a personal time deposit, which is not subject to reserve requirements. The Credit Union has established a 90 to 180 day interest penalty for early withdrawal. However, there are some exceptions to the early withdrawal penalty, including:

   i. Upon the death of the time deposit (share certificate) owner;
   ii. When the owner is ruled by a court to be legally incompetent;
   iii. When the time deposit is maintained in an IRA and all of the funds are paid within 7 days
of opening the account;

iv. When the time deposit is maintained in an IRA and the member reaches 59 ½ or is disabled;

v. When the owner of the time deposit is in danger of losing its share insurance due to the merger of two federally-insured credit unions; and

vi. When a time deposit is withdrawn within 10 days after a specified maturity date, even if the certificate contract provides for automatic renewal at maturity.

C. **Non-Transaction Accounts.**

i. For purposes of Regulation D, “non-transaction accounts” are defined as those accounts where the member may, at any time, be required by the Credit Union to give written notice of an intention to withdraw funds. The Credit Union has defined the following as non-transaction accounts:
   a. Share savings (S01, S04, S05)
   b. Club accounts (S03, S08, S09)
   c. Saver accounts (S10, S11, S12)
   d. Money market accounts (S76)
   e. IRA share accounts (S80, S81, S82)

ii. Regulation D imposes a six transfer/withdrawal limit on non-transaction accounts, which includes the following types of transactions:
   a. Preauthorized or automatic withdrawals;
   b. Telephone transfers; or
   c. Transfers initiated by personal computer to another account at the same credit union or to a third party during a calendar month or statement cycle.

iii. No more than 6 transfers can be made by share draft, draft, debit card or similar order and payable to third parties. A non-transaction account that does not have these withdrawal limitations (either contractually or by practice) will be categorized as a transaction account under Regulation D. This means that the non-transaction account would have to be categorized as a transaction account for reserve requirement purposes not only for the accounts of members who actually exceed the monthly 6 transfer/withdrawal rule, but also for all accounts in the same class where some of the account owners regularly violate the limits and the Credit Union does not intervene.

iv. Transactions not included in the six transfer/withdrawal limit are as follows:
   a. Credits to an account;
   b. Transfers from a credit union account to the same credit union for purposes of repaying loans and associated expenses; and
   c. Transfers or withdrawals the member makes in person, through an ATM, by mail, by messenger, or by telephone (which results in the mailing of a share draft/check to the member).

v. In order to ensure that no more than the permitted number of transfers/withdrawals are
made from a non-transaction account, the Credit Union has adopted procedures to monitor transfers/withdrawals that would be in excess of the transfer limitations. Members are contacted if they exceed the established limits on more than one occasion. For members who continue to violate the limits after they have been contacted by the Credit Union, the Credit Union will close the account, transfer the funds to another account that the member is eligible to maintain, or take away the transfer and draft capabilities of the account.

vi. Members who exceed the established limits will be charged an excess Regulation D fee as a deterrent. Credit Union employees are allowed to refund one fee only, as a courtesy.

2. **RESERVE REQUIREMENTS.**

   A. Financial institutions with up to $10.3 million in net transactions (the reserve requirement exemption amount) are exempt from reserve requirements.

   B. Financial institutions with between $10.3 million and $44.4 million have a 3% reserve requirement.

   C. Financial institutions with over $44.4 million (the low reserve tranche) must reserve $1,023,000 plus 10% of the amount over $44.9 million.

3. **REPORTING.**

   A. **Exempt** - Total deposits below $10.3 million.

   B. **Weekly** - Net transaction accounts over $10.3 million with total deposits at or above $224.6 million, or net transaction accounts of $10.3 million or less, but with total deposits of at least $1.1258 billion, using Form FR 2900 to local Federal Reserve.

   C. **Quarterly** - Net transaction accounts over $10.3 million with total deposits below $224.6 million, using Form FR 2900. USSCO Johnstown Federal Credit Union is required to report quarterly. Reporting is done electronically through the Federal Reserve Bank.

   D. **Annual** - Net transaction accounts at or below the exemption amount of $10.3 million, with total deposits of at least $10.3 million but less than $1.1258 billion, filing the Annual Report of the Total Deposits and Reserve Liabilities.

4. **RESERVE MAINTENANCE/COMPUTATION PERIOD.**

   A. Credit Union files a consolidated report for all branches.

   B. Overseas deposits are included on a case-by-case basis.

   C. Each report **must** be signed by a Credit Union official who certifies the accuracy.

   D. Reporting period is Tuesday through Monday. The average is computed by the Federal Reserve to required reserves.

   E. For transaction accounts, reserves must be maintained at the required level on a weekly basis.

   F. Quarterly Reports are logged. Quarterly reports maintain reserve balances beginning the fourth Thursday following the end of the computation period. The maintenance period ends on the fourth Wednesday of the close of the next computation period.
Attachments:

Attachment A:  Regulation D & How It Affects Your Accounts
Attachment B:  Regulation D Frequently Asked Questions
Attachment C:  First Notice to Member
Attachment D:  Second Notice to Member
Attachment E:  Third (Final) Notice to Member
Attachment F:  Regulation D Compliance Timeline
Regulation D and How It Affects Your Accounts

Please note: Federal Reserve Regulation D is a directive of the government, not USSCO Johnstown Federal Credit Union.

Federal regulations require USSCO Johnstown Federal Credit Union to limit the way withdrawals may be made from share savings, club, CDs, Savers, and money market accounts. Withdrawals in excess of these limits may result in a fee or account closure.

Members sometimes wonder why share savings, club, CDs, Savers, and money market accounts have different terms or pay different interest rates. One of these reasons is Regulation D:

- Regulation D applies to all financial institutions.
- The Regulation was implemented by the Board of Governors of the Federal Reserve System to ensure financial institutions maintain adequate reserves for the funds they have on deposit and ensure sufficient funds are available to meet member’s withdrawal demands. Reserve requirements are based upon a financial institution’s total balance held in transaction versus non-transaction accounts.
- The regulation establishes operating parameters for each account category, such as transaction accounts (checking accounts) and non-transaction accounts (share savings, club, CDs, Savers, and money market accounts.) The Federal Reserve requires financial institutions to treat a typical savings account differently from a checking account. Savings accounts are intended to be established for long term savings with few withdrawals. On the other hand, checking accounts are established for frequent transactions.
- Regulation D places limits on the type and number of withdrawals that can be made from certain non-transaction accounts (share savings, club, CDs, Savers, and money market accounts.)
- Checking accounts are deemed to be transaction accounts and have no such transfer or withdrawal limitations.

Regulation D Limitations

Share Savings, Club, CDs, Savers, and Money Market Deposit Accounts: During any calendar month, you may not make more than six withdrawals or transfers to another credit union account of yours or to a third party by means of a pre-authorized or automatic transfer or telephonic order or instruction.
To help you understand these Reg. D savings account transaction limitations and to avoid excess activity charges, please review the following information:

**Non-Limited Transactions:**

- Deposits including night drop box deposits
- ATM cash withdrawals and transfers (subject to daily amount limits and sufficient available funds)
- Withdrawals made in person, by mail, or by messenger at a USSCO Johnstown Federal Credit Union office
- Transfers made in person or written transfer note deposited in night drop box or written transfer note by messenger at a USSCO Johnstown Federal Credit Union office
- Automatic, telephonic, MAID, and Home Banking transfers to repay your USSCO Johnstown Federal Credit Union loan

**Limited Transactions:**

- Automatic transfers from a non-transaction account to another deposit account at USSCO Johnstown Federal Credit Union
- Automatic transfers from a non-transaction account to a third party or another institution
- Telephone transfers, including MAID and those initiated by phone call, fax, or e-mail from a non-transaction account through a credit union representative
- Home Banking online banking transfers from a non-transaction account
- Overdraft transfers from a non-transaction account to a checking account

In order to ensure that no more than the permitted number of withdrawals or transfers is made, the regulation requires that depository institutions take steps to prevent excessive transactions.

**Excessive Transactions:** Withdrawals or transfers by mail, in person at one of our offices, and through an ATM are unlimited and are not subject to the Regulation D 6-transfer/withdrawal limitation. Transfers/withdrawals in excess of the 6-transfer /withdrawal limitations as described above may be subject to a fee, in accordance with our Truth in Savings Disclosure.

Notices will be sent to the member when Regulation D limitations have been violated during a one calendar month period. There are a series of three notices (1st violation, 2nd violation, and 3rd violation) that will be mailed from USSCO. When Regulation D limitations have been violated for the third time in a rolling twelve month period, the member will either have: 1) their account closed, with a check mailed to them, representing the balance in their account; 2) their funds in this account transferred to a demand deposit account (checking account); or 3) their transfer and draft capabilities will be taken away on the account. This suspension of transfers means that any future transfers from the account will be denied and future debits will be returned unpaid to the originator. A management team member may give the member an exception to policy for reasonable reasons as to why the member exceeded limitations. If reasons are reasonable, management team member may reinstate overdraft transfers with exceptions, one time.
If you anticipate more frequent items posting to a non-transaction account (share savings, club, CDs, Savers, and Money Market accounts), please contact a USSCO Johnstown Federal Credit Union representative at 814-266-4987 or toll free at 1-866-877-2628 to discuss converting your account to a transaction account.
Regulation D Frequently Asked Questions

1. What is Regulation D?
Federal Regulation D (Reg D) is a regulation imposed by the Federal Reserve Board on all financial institutions and places a monthly limit on the number of transfers and withdrawals you may make from your share savings, club, CDs, Savers, and money market accounts (also known as non-transaction accounts).

2. So what does the regulation mean to me?
Regulation D limits certain types of transactions on non-transaction accounts to six (6) per month, per account. Transactions within a share draft (checking) account (also known as a transaction account) do not count as part of the six transactions. And, there are no limitations to the number of transactions that you may perform on any account in person, by mail, or through an ATM.

3. What transactions are limited by Reg D?
   - Automatic transfers from a non-transaction account to another deposit account at USSCO Johnstown Federal Credit Union
   - Automatic transfers from a non-transaction account to a third party or another institution
   - Telephone transfers, including MAID and those initiated by phone call, fax, or e-mail from a non-transaction account through a credit union representative
   - Home Banking online banking transfers from a non-transaction account
   - Overdraft transfers from a non-transaction account to a checking account

4. What transactions are not limited by Reg D?
   - Deposits including night drop box deposits
   - ATM cash withdrawals and transfers (subject to daily amount limits and sufficient available funds)
   - Withdrawals made in person, by mail, or by messenger at a USSCO Johnstown Federal Credit Union office
   - Transfers made in person or written transfer note deposited in night drop box or written transfer note by messenger at a USSCO Johnstown Federal Credit Union office
   - Automatic, telephonic, MAID, and Home Banking transfers to repay your USSCO Federal Credit Union loan

5. Why do loan payments from non-transaction accounts NOT count for Reg D?
Regulation “D” limits the number of transactions made from non-transaction accounts to transaction accounts (share draft or checking) because of the reserve requirements. A loan is not a transaction account and is therefore not affected by Regulation “D”.

6. What are my options once an account has reached its Reg D limit?
You may complete withdrawals and transfers in person, by mail, or at an ATM.

7. Why can I make as many transfers at the ATM as I want, but I am limited on Home Banking and MAID? The ATM transaction is considered a signature transaction and viewed as if the member had appeared at a USSCO Johnstown Federal Credit Union office.

8. I have authorized a merchant to automatically withdraw payments from my non-transaction account – do these count against my monthly limit? Yes. These payments (which you might know as “ACH” or “EFT” transactions) follow Reg D limitations. You should use your share draft (checking) account for these withdrawals.

9. I use my non-transaction account to pay my Bill Pay payments – do these count against my monthly limit? Yes. Payments made from a non-transaction account count towards Reg D limits. You should use your share draft (checking) account for these payments.

10. If an account used for overdraft protection has reached its Reg D limit, will overdraft requests be honored? As of July 1, 2009, overdraft requests will be honored with a Reg D violation fee of $30.00. After three violations, the Credit Union will close the account, transfer the funds to another account that the member is eligible to maintain, or take away the transfer and draft capabilities of the account.

11. Does Reg D apply to the use of a Visa Check Card at gas stations, grocery stores, restaurants, and the like? When you use your Visa Check Card for a point of sale transaction at a gas station or retailer, the funds are debited from your share draft (checking) account, which means that the transaction is not subject to Reg D. In the event that Visa Check Card transactions create an overdraft and funds are automatically transferred from your share savings to your share draft (checking), then this transfer impacts Reg D.

12. I have a share savings account and a club account at the credit union – does the six transaction limit apply to each account or are transfers aggregated from all three accounts in determining the six transaction limit? The six transaction limit would apply to each one, provided the accounts were not established for the sole purpose of avoiding Reg D compliance.
IMPORTANT NOTICE
PLEASE READ AND ACT IMMEDIATELY
OR CALL (814) 266-4987 FOR MORE INFORMATION

Re: Share Account Number _________________

Dear Credit Union Member,

Please be advised that you have been charged a $32.00 fee because you exceeded the Regulation D limitations of 6 transactions per month for the calendar month of ______________.

If you exceed Regulation D limits two more times, the Credit Union will have to close your account, transfer the funds to another account that you are eligible to maintain, or take away transfer and draft capabilities on the account.

Please understand that the Credit Union does not want this to happen. We can help you make the necessary changes so that you do not continue to exceed Regulation D limits. Enclosed is our brochure and a “Frequently Asked Questions” document which explain the regulation and its limitations.

If you have any further questions or need our help in making the appropriate changes, please call us at (814) 266-4987 or contact your local branch office to discuss your account.

Thank you for your prompt attention to this matter.

Sincerely,

USSCO Johnstown Federal Credit Union
IMPORTANT NOTICE
PLEASE READ AND ACT IMMEDIATELY
OR CALL (814) 266-4987 FOR MORE INFORMATION

Re: Share Account Number _______________

Dear Credit Union Member,

Please be advised that you have been charged a $32.00 fee because you exceeded the Regulation D limitations of 6 transactions per month for the calendar month of ________________.

If you exceed Regulation D limits one more time, the Credit Union will have to close your account, transfer the funds to another account that you are eligible to maintain, or take away transfer and draft capabilities on the account.

Please understand that the Credit Union does not want this to happen. We can help you make the necessary changes so that you do not continue to exceed Regulation D limits. Enclosed is our brochure and a “Frequently Asked Questions” document which explain the regulation and its limitations.

If you have any further questions or need our help in making the appropriate changes, please call us at (814) 266-4987 or contact your local branch office to discuss your account.

Thank you for your prompt attention to this matter.

Sincerely,

USSCO Johnstown Federal Credit Union
Date

Name
Address
Address

IMPORTANT NOTICE
PLEASE READ IMMEDIATELY
CALL (814) 266-4987 FOR MORE INFORMATION

Re: Share Account Number ________________

Dear Credit Union Member,

Please be advised that you have been charged a $32.00 fee because you exceeded the Regulation D limitations of 6 transactions per month for the calendar month of ________________.

Unfortunately, this is your third violation within the last twelve months. Credit Union policy does not allow for more than three violations in a rolling twelve month period, therefore, the following action has been taken:

_____ We have closed your account. Enclosed is a check representing the balance in your account.
_____ The funds in this account have been transferred to ______________________.
_____ We have taken away the transfer and draft capabilities on this account. Any future transfers from this account will be denied and future debits will be returned unpaid.

If you have any questions, please call us at (814) 266-4987 or contact your local branch office to discuss your account.

Sincerely,

USSCO Johnstown Federal Credit Union
**Regulation D Compliance**

**Timeline**

1) On May 1, 2009, Reg. D counters will be turned on.
   a) Counters will be turned on for monitoring and education purposes only.
   b) The goal is to educate and assist members in setting up their transactions appropriately so that future violations will be eliminated.

2) On October 1, 2009, the “Monitor Compliance” approach in regard to Reg. D violations will begin.
   a) The “Monitor Compliance” approach entails allowing the transactions to post with a Reg. D violation fee of $30.00.
      i) The member will be contacted by means of a Reg. D notice.
      ii) Credit Union employees will be allowed to refund one fee as a courtesy. The account will be notated on the comments screen. Any additional fee refunds will be in violation of credit union written policy.
      iii) After three violations, the Credit Union will close the account, transfer the funds to another account that the member is eligible to maintain, or take away the transfer and draft capabilities of the account.

3) On January 1, 2010, the “Forced Compliance” approach will begin.
   a) The “Forced Compliance” approach means that any transaction that will cause a member to exceed Reg. D limitations will be rejected.
      i) Home banking and audio response (MAID) transfers will not be processed.
      ii) Bill Pay transactions will not be paid.
      iii) Auto-transfers will not be processed.
      iv) Pre-authorized drafts or ACH withdrawals from a non-transaction account will be returned and the member will be charged a $30.00 NSF fee.
      v) Overdraft transfers will not be processed. A share draft will be returned and the member will be charged a $30.00 NSF fee. Debit card transactions cannot be returned, therefore, the transaction will be posted and the member charged a $30.00 NSF fee.

**Reg. D Compliance Procedures starting May 1, 2009**

1) Frontline and Phone Queue
   a) Education
   b) Transfers posted by telephone request- transaction mode of employee properties must be changed to phone.

2) IT Department
   a) Turn on Reg. D counters. Set excess Reg. D limits to “warn,” which means the transaction will post but a warning code will appear on bulk poster reports.
   b) Produce log file reports for home banking and audio response transactions.

3) Back Office
   a) Monitor bulk poster reports and log file reports for excess Reg. D warnings.
   b) Warnings will be reported on the Reg. D Violations log located in the Reg. D folder in the apps directory.

4) Branch Managers
a) Responsible for reviewing Reg. D Violations log and contacting any members reported on the log.
b) Educate and assist the members in setting up their transactions to eliminate any possible future violations.

Reg. D Compliance Procedures starting October 1, 2009
1) Frontline and Phone Queue
   a) Continued education
   b) Continued use of the phone mode for telephone transfers.
   c) As a policy, one excess Reg. D fee can be refunded and the account notated. Any additional fee refunds will be in violation of credit union policy, unless the fee was the result of a credit union error.
2) IT Department
   a) Keep excess Reg. D limits at “warn.” Set excess Reg. D fee to $30.00.
   b) Continue to produce log file reports for home banking and audio response transactions
3) Back Office
   a) Continue to monitor reports for excess Reg. D violation warnings and report them on the log in the apps directory.
      i) After three violations, close the account, transfer the funds to another account that the member is eligible to maintain, or take away the transfer and draft capabilities of the account.
   b) Mail excess Reg. D notices to the members.
   c) One excess Reg. D fee can be refunded and the account notated. Any additional fee refunds will be in violation of credit union policy, unless the fee was the result of a credit union error.
4) Branch Managers
   a) Continue to review Reg. D Violations log and contact any members in violation.
   b) Continue to educate members in an effort to eliminate any future violations.
   c) Branch Managers will also be restricted in refunding excess Reg. D fees. (See 3c above)

Reg. D Compliance Procedures starting January 1, 2010
1) Frontline and Phone Queue
   a) Education as far as what the system is going to do with excess Reg. D violations starting January 1st.
   b) Continue with the same procedures from July 1, 2009
2) IT Department
   a) Change profiles and switch files from “warn” to “reject.”
3) Back Office
   a) Pre-authorized drafts or ACH withdrawals from a non-transaction account (in excess of the three allowed by the reg.) will be returned and the member will be charged a $30.00 NSF fee.
   b) Overdraft transfers (in excess of the six allowed by the reg.) will not be processed. Share drafts will be returned and the member will be charged a $30.00 NSF fee. Debit card transactions cannot be returned, therefore, the transaction will be posted and the member charged a $30.00 NSF fee.
   c) Home banking and audio response transactions will be rejected.
d) Bill pay transactions will not be paid and auto-transfers will not be processed.
e) Mail notices to the members.

4) Branch Managers
a) Since the system will be rejecting and the back office returning any excess Reg. D violations, monitoring the Reg. D Violations log will no longer be necessary.

Updated Reg D. Compliance Procedures Starting September 1, 2012
Per Gretchen Blystone at ICS Risk Advisors on May 30, 2012, USSCO needs to review Reg D and compare the information being counted versus what the regulation states. We were also review what time frame should be used to count six transactions and create an “instance” and how many “instances” should occur before the account is closed. According to ICS Risk Advisors (email dated May 31, 2012), the depositor is permitted or authorized to make no more than six transfers and withdrawals, or a combination of such transfers and withdrawals, per calendar month or statement cycle of at least four weeks. We were advised to adopt procedures to monitor those transfers on an ex post basis and contact customers who exceed the established limits on more than an occasional basis. “Occasional has been defined as three “instances” in a rolling 12 months.”

1) IT Department
a) The daily Reg D Violators Crystal Report will be replaced with a monthly report starting October 1, 2012

2) Back Office
a) No members will be charged any daily Reg D violation fees during the month of September 2012, in compliance with the change in procedures. The monthly report for September will be run October 1st.
b) Reg D Violators for the month will be charged a fee, in accordance with our Truth in Savings Disclosure, and sent a 1st, 2nd or 3rd Notice, whichever is applicable.
c) Violator names and the month of violation will be placed in a Reg D Tracking Log and sorted by name. Back Office personnel will use the log to determine whether a 1st, 2nd or 3rd Notice should be mailed. The notices are in the Reg D folder in the apps directory.
d) If a 3rd Notice is mailed, 1) member account will be closed and a check mailed representing the balance in the account; 2) the funds in the account will be transferred to a demand deposit account (checking account); or 3) the transfer and draft capabilities on the account will be taken away.