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MONETARY AND FINANCIAL REPORTING

FR 2900 Seminars

We offer free deposit report seminars! These one-day events are full of essential information you need to know to accurately file your FR 2900 (weekly/quarterly) report. Here's what a few of our recent attendees had to say:

"The seminar met and exceeded my expectations!"

*Rodolfo Moncayo
Inter National Bank, McAllen, TX*

"I came here only knowing how to key and fax in the report. Now I know why those numbers go there!"

*Frances Pack
Citizens State Bank, Somerville, TX*

"The wonderful ladies presenting the info made the whole day a lot of fun!"

*Anonymous
Houston, TX*

Look for the complete 2012 seminar schedule in the winter *Statistics Newsletter*. For more information, visit www.dallasfed.org/banking/reporting/index.html and click on "Seminars."

Looking for Article Ideas

If you have an FR 2900 issue that keeps you up at night and would like us to address it in a future newsletter article, we would love to hear from you! Please email your ideas to the editor at Monetaryreports@dal.frb.org.

What's All the Interest in Interest on Demand?

Seventy-eight years after it was implemented, and under the reform of the Dodd–Frank Act, Regulation Q—Prohibition Against the Payment of Interest on Demand Deposits, was repealed, effective July 21, 2011. Though not required, banks are now allowed to pay interest to their demand account holders, particularly commercial ones. Great! Right? Well, not so fast...

Do banks really want to pay their demand customers interest? There are actually several reasons why they may not. Until now, interest could not be paid on demand deposit accounts. Prior to Reg Q's repeal, banks compensated their commercial demand customers by offering free checking accounts, compensating balance arrangements and other such programs. The most popular of these is the use of earnings credit. Earnings credit is the adjustment factor used by banks to reduce service charges on demand business checking accounts in exchange for holding balances on deposit. So it becomes a toss-up between paying miniscule interest rates on a demand product or the customer avoiding service fees and product charges.

Another reason banks may not rush into offering interest on demand deposits is that their customers will lose unlimited FDIC insurance coverage under Section 343 of the Dodd–Frank Act. This section provides unlimited insurance on all noninterest-bearing demand deposits from Dec. 31, 2010, through Dec. 31, 2012. Once a demand account becomes interest bearing, it is no longer eligible for full insurance coverage and reverts back to the \$250,000.00 cap. Again, it becomes a choice between the extended insurance and the payment of hard dollar interest.

Based on our casual observations, it appears that most institutions are taking a "wait and see" attitude. However, some have aggressively implemented new account types or have modified existing ones. If your institution is considering paying interest on demand, we have a few words of caution. If you plan to modify existing account types, there are some factors to keep in mind. NOW, credit union share draft and demand deposit accounts are transaction accounts, meaning they offer unlimited withdrawals and transfers. However, there are two distinguishing factors between NOW/share draft and demand:

- NOW/share draft accounts reserve the right to require written notice prior to an intended withdrawal.
- NOW/share draft accounts maintain strict eligibility restrictions.

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To Report or Not to Report, That Is the Real Question

“Balances held directly in my Fed master account, excess balance accounts, pass-through accounts, balances in excess of my pass-through balance... Argh!! How do I report them on my FR 2900 or do I report them at all?” If you have wondered whether to report these balances, you are not alone. We hope the following information will shed some light on this confusing topic.

Question: What if my institution has a master account with the Federal Reserve Bank? Are these balances reported on my FR 2900 report?

Answer: If the Federal Reserve Bank processes your cash letter, deferred balances should be reported in “Cash items in process of collection” (line B.2) on the FR 2900 report. Once those balances become available, and if left in your Federal Reserve master account, they should be excluded from both “Demand balances due from depository institutions in the U.S.” (line B.1) and “Cash items in process of collection” (line B.2). Demand balances held by your institution at a Federal Reserve Bank are not included in “Demand balances due from depository institutions in the U.S.” (Item B.1) since the Fed is not a “depository institution,” nor are they included in “Cash items in the process of collection” (line B.2) since they are no longer deferred.

Question: What is an excess balance account (EBA) and should these balances be included on my FR 2900 Report?

Answer: An excess balance account is an account held at the Federal Reserve Bank, established for one or more institutions (participants) that must be eligible to earn interest on balances held at the Federal Reserve Bank. Each institution, or “participant,” must authorize another institution, such as a pass-through correspondent or an “agent” to manage the excess balance account on its behalf. According to the FR 2900 instructions, these accounts should not be reported on the FR2900 report since these balances represent a deposit liability of the Reserve Bank. This liability is solely the Reserve Bank’s liability to the EBA participant and not the liability of the “agent” to the participant.

Question: What are pass-through accounts and should they be included on my FR 2900 Report?

Answer: A reporting institution required to maintain reserve balances may choose either to maintain these balances directly with its Federal Reserve or to pass its required reserve balance through a correspondent’s account. A pass-through relationship allows a financial institution (respondent) to hold its required reserve balances with another institution (correspondent) that maintains a master account with a Reserve Bank. To establish a pass-through relationship, both the correspondent and the respondent institutions must complete a pass-through agreement. According to the FR 2900 instructions, all balances received from respondent institutions that have been passed through to the Federal Reserve Bank to satisfy reserve requirements should be excluded from the correspondent and respondent’s FR 2900 reports. These balances are not available to either party since they are passed through to the Federal Reserve Bank in order to satisfy reserve requirements.

Question: What if I have balances in my pass-through accounts in excess of my reserve requirements? Do I need to include those balances on my FR 2900 report?

Answer: YES! Respondent institutions should report such balances in “Demand deposits due from a depository institution in the U.S.” (line B.1). Accordingly, the correspondent institution should report these balances in “Demand deposits due to depository institutions” (line A.1.a), regardless of whether those balances have been passed to a Federal Reserve Bank.

We hope these tips have made your decision whether or not to report these balances on your FR 2900 report a little bit easier. If you have questions on this topic or any others, your friendly analyst is only a phone call or email away.

What's All the Interest in Interest on Demand? *Continued from page 1*

Commercial entities are not eligible to hold a NOW account, regardless of the payment of interest. Therefore, an institution cannot allow its commercial customers to open an interest-bearing NOW account in response to the repeal of Regulation Q.

Another aspect to consider is deposit reclassification arrangements, also known as "Retail Sweep Programs." Under the Board of Governors' Deposit Reclassification Sweep Guidelines, May 2007, an account that is paid interest as a transaction account must be paid interest, at the same rate, when swept to a nontransaction account. With the repeal of Regulation Q and the payment of interest on demand, funds that are swept to savings must now pay the same interest rate while they are in the savings account.

The full impact of being allowed to pay interest on demand deposits is unclear. Questions you may want to consider as you move forward are: How will this affect your customer and your bank, and how will you file your financial reports? Institutions should consider these options and obligations as they make decisions on paying interest on demand.

Holiday Reporting

The Federal Reserve Bank will observe the following holidays:

Columbus Day	Monday, October 10, 2011
Veterans' Day	Friday, November 11, 2011
Thanksgiving Day	Thursday, November 24, 2011

When holidays occur during the report week, please report according to the scenario below that best describes your institution's procedures.

Scenario	Proper Reporting
Closed	Carry the previous day's balance forward
Closed but GL posting	Report balances as reflected on GL as of close of business*
Open but NOT GL posting	Carry the previous day's balance forward
Open and GL posting	Report balances as reflected on GL as of close of business*

* Both sides of the transaction (credit and debit) must be recorded and reported.

How to Contact Your Statistics–Monetary and Financial Report Staff

Visit our website at <http://dallasfed.org/banking/reporting> to find electronic versions of *Statistics News* as well as staff names, phone numbers and email addresses.

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The Importance of an Active IESUB Account

Have you ever tried to log into IESUB and received a message informing you that the information you entered is no longer valid? Your account's status should always be "enabled"; otherwise, you're at risk of having your account closed. Accounts disabled in this manner are deleted after one year.

Keeping your account enabled is easy to do. Just log into IESUB with your user name and password at least once a month. If you do not log on every 30 days, your account will expire or be disabled. Once your account expires, you will have to reset your password or contact us to reset it for you. If you fail to reset your password, one year after your account has been disabled, it will automatically be deleted. To reactivate your account, you will need to complete the paperwork required to create a new account. Contact us if you have questions on this or other IESUB support issues.