



Jared Ross
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Ann E Misback
Secretary of the Board of Governors of the Federal Reserve System
20th St. and Constitution Ave. NW,
Washington, D.C. 20551

Re: Regulation D: Reserve Requirements of Depository Institutions - 12 CFR 204 - [RIN 700-AF 89]
5/29/2020

To Ms. Misback,

The League of Southeastern Credit Unions & Affiliates (LSCU) appreciates the opportunity to comment on the interim final rule amending Regulation D. We support the interim final rule. Essentially, we think the rule provides the proper balance of flexibility to enable our credit unions to choose whether to suspend the six-transaction limit previously imposed on “savings deposit” accounts. Generally, our credit unions believe this rule can help their members have better access to their money, particularly in light of the challenges imposed by the coronavirus epidemic. However, some credit unions are concerned about any mandatory removal of the transaction limit. Those concerns will be discussed below.

The LSCU is a trade association representing 339 credit unions in Alabama, Florida and Georgia with nearly \$120 billion in total assets and approximately 10 million members. Our mission is “to create an environment that enables credit unions to grow and succeed.” We support this rule because our credit unions will have the flexibility to best serve their members according to their own unique circumstances.



We understand that Reg D's transaction limits were created as a tool¹ in the Fed's toolbox to govern the money supply in its monetary policy role. With the Fed's determination that that tool is no longer necessary to manage the money supply, it has reduced the reserve requirements and can also modify the regulatory scheme--the savings deposit transaction limitation that was enacted to support this tool.

Because this regulation was implemented some time ago, it is difficult to determine how much of a compliance burden it has put on our credit unions. It is equally unclear how much it limits members' access to or use of their funds. A Government Accountability Office report to Congress on Reg D found that more than 75% of credit unions were exempt from Reg D's reserve requirements.² And for those that had reserve requirements, their transaction deposits had a 3% reserve ratio.³

Generally, our affiliated credit unions support the modification of the rule. However, some credit unions have expressed concern over the change. We encourage the Fed to keep these concerns in mind when evaluating any further changes to the rule or any potential mandatory elimination of the transaction limits in the future. Some of their concerns are:

- Educating members on the nature, role and use of "savings deposit" accounts.
- Having to adjust the programming for core processors, ATMs, apps, online banking and other means of conducting transactions that may be controlled by vendors.
- Any complications and expenses associated with issuing debit cards to "savings deposit" accounts.
- The loss of income from less use of checking accounts and the various fees associated with them.
- Confusion to members over the increasing difficulty in distinguishing between checking and savings transaction accounts, such as courtesy pay issues or funds availability.
- The various costs associated with changing forms for disclosures and potential modification of account agreements and of policy and procedure changes and ultimate adoption.
- We wonder how will this flexibility affect peer-to-peer comparison and ratio analysis typically performed by examiners?
- We understand that the Federal Open Market Committee made this amendment after shifting to an ample reserve regime that no longer requires reserves. Considering that credit unions will be

¹ U.S. Gov't Accountability Office, GAO -17-117, Federal Reserve: Observations on Regulation D and the Use of Reserve Requirements 5 (2016).

² *Id.* at 35.

³ *Id.*



impacted by changes the committee makes in the future we think the it should commit to not revert back to a regime that would cause financial institutions to re-impose a transaction limitation. This amendment has provided relief for members so that they will bear the inconvenience of any re-imposition of the transaction limitation based on a decision of the committee. The Federal Reserve Board should clearly state that elimination of the six convenient transfer limitation (for those that choose to do so) is permanent.

In a survey to our credit unions, approximately 60 of 71 respondents enforced the six-withdrawal limit. Of those, 36 of 66 credit unions charged fees on excessive transactions. Similarly, 60 of 72 credit unions plan to end the practice of enforcing transactions limits. We learned 59 of 61 credit unions do not plan to offset the loss of income from fees for violations of the transaction limit. While the loss of income does concern many credit unions, some may earn more in interchange fees for those that associate these accounts with a debit card. This reflects that credit unions can manage a challenge described in the GAO report that credit unions “must balance the administrative cost and opportunity costs of maintaining reserves against their transactions accounts with the operational costs (and benefit) of enforcing the six-transaction limit on convenient transfers and withdrawals for savings deposits.”⁴

Just as important to the burden on credit unions is the potential burden to consumers. Indeed, one reason LSCU supports the change is that it may benefit consumers at some institutions. The GAO report indicated that few consumers exceeded the transaction limit.⁵ Similarly, few consumers complaints about financial institutions are related to Reg D, indeed only .5% of deposit related complaints involved Reg D.⁶ However, one of our credit unions explained their members did have issues with the six transfer limit. Reg D transaction limits triggered calls from confused members when they had reached their maximum allowable transactions. These members were confused because they had funds in their share account and didn’t understand why they couldn’t transfer funds to their transaction account to avoid overdraft fees. Some may have thought the credit union was charging overdraft fees in a predatory

⁴ *Id.* at 27.

⁵ *Id.* at 40.

⁶ *Id.* at 42.



manner while in fact it was because of Reg D's restrictions. The members only options were to go to an ATM or a branch location, both options causing inconveniences, one in fees, the other in time.

In conclusion, we support the interim final rule to allow credit unions the option to enforce the transaction limit or to not enforce the transaction limit. At present, we oppose any effort to require credit unions to end enforcing transactions that do not think it prudent to do so. And we think any future plan to permanently remove the option to maintain transaction limits should have a long enough time frame to allow credit unions time to plan for the transition in a cost-effective way. Thank you for considering our input, and please let us know if we can provide any other information or assistance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jared Ross", is placed below the word "Sincerely,".

Jared Ross