FDIC
Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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FINAL RULE: TEMPORARY UNLIMITED COVERAGE FOR NONINTEREST- BEARING TRANSACTION ACCOUNTS

Summary: The FDIC Board of Directors (Board) has issued a final rule to implement the section of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) that provides temporary unlimited coverage for noninterest-bearing transaction accounts at all FDIC-insured depository institutions (IDIs). The separate coverage for noninterest-bearing transaction accounts becomes effective on December 31, 2010, and terminates on December 31, 2012.

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Related Topics:
Deposit Insurance Regulations (12 C.F.R 330)

Attachment:
Final Rule: http://www.fdic.gov/news/board/Nov9no4.pdf

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Highlights:

- Section 343 of the Dodd-Frank Act amends the Federal Deposit Insurance Act to include noninterest-bearing transaction accounts as a new temporary deposit insurance account category. All funds held in noninterest-bearing transaction accounts will be fully insured, without limit, from December 31, 2010, through December 31, 2012.

- This unlimited coverage is separate from, and in addition to, the coverage provided to depositors with other accounts held at an IDI.

- The Dodd-Frank Act provision is similar to the FDIC's Transaction Account Guarantee Program (TAGP), which expires on December 31, 2010, but defines noninterest-bearing transaction accounts as only traditional noninterest-bearing transaction accounts. Unlike the TAGP, the Dodd-Frank Act definition of noninterest-bearing transaction accounts does not include either low-interest Negotiable Order of Withdrawal (NOW) accounts or Interest on Lawyer Trust Accounts (IOLTAs).

- The final rule includes notice and disclosure requirements that IDIs must implement by December 31, 2010.

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Background

On November 9, 2010, the FDIC Board of Directors issued a final rule to implement section 343 of the Dodd-Frank Act. This separate coverage for noninterest-bearing transaction accounts becomes effective on December 31, 2010, and terminates on December 31, 2012. Beginning January 1, 2013, such accounts will be insured under the FDIC's general deposit insurance coverage rules.

The Dodd-Frank Act provision is similar to the FDIC's TAGP, which expires on December 31, 2010. However, as emphasized in the final rule, it differs significantly from the TAGP in defining a "noninterest-bearing transaction account." The Dodd-Frank Act provides unlimited insurance coverage only for traditional noninterest-bearing transaction accounts. Thus, unlike the TAGP, the Dodd-Frank Act provision does ***not*** include within the definition of a noninterest-bearing transaction account either low-interest NOW accounts or IOLTAs. It is important that IDI personnel and depositors understand this difference.

The Final Rule

The final rule revises the Corporation's deposit insurance regulations to include noninterest-bearing transaction accounts as a new temporary deposit insurance account category. The final rule explains that all funds held in noninterest-bearing transaction accounts are fully insured, without limit, and that this unlimited coverage is separate from, and in addition to, the coverage provided to depositors with respect to other accounts held at an IDI.

The final rule follows the definition of a noninterest-bearing transaction account in the Dodd-Frank Act, which does not include any interest-bearing accounts. The Dodd-Frank Act definition of noninterest-bearing transaction accounts encompasses only traditional, noninterest-bearing demand deposit (or checking) accounts that allow for an unlimited number of transfers and withdrawals at any time, whether held by a business, an individual or other type of depositor. The final rule expressly states that low-interest NOW accounts and IOLTAs, which are covered under the TAGP, are not covered under the Dodd-Frank Act definition of noninterest-bearing transaction accounts and, thus, do not qualify for temporary unlimited coverage under this final rule.

Specifically, a noninterest-bearing transaction account is a deposit account in which (1) interest is neither accrued nor paid, (2) depositors are permitted to make an unlimited number of transfers and withdrawals, and (3) the insured depository institution does not reserve the right to require advance notice of an intended withdrawal. A deposit account that earns no interest does not necessarily qualify as a noninterest-bearing transaction account. Money Market Deposit Accounts and NOW accounts are not eligible for this unlimited coverage, regardless of the interest rate.

Notice Requirements (December 31, 2010, implementation date)

The final rule imposes three notice and disclosure requirements to ensure that IDIs and depositors are aware of and understand the types of accounts that will be covered by this temporary deposit insurance coverage for noninterest-bearing transaction accounts. As explained in detail in the attached *Federal Register* notice: (1) IDIs must post a prescribed notice in their main office, each branch and, if applicable, on their Web site; (2) IDIs currently participating in the TAGP must notify NOW account depositors and IOLTA depositors (currently protected under the TAGP) that, beginning January 1, 2011, those accounts no longer will be eligible for unlimited protection; and (3) IDIs must notify customers of any action they take that would affect the deposit insurance coverage of funds held in noninterest-bearing transaction accounts.