FDIC

Federal Deposit Insurance Corporation
550 17th Street NW, Washington, DC 20429-9990

Financial Institution Letter
FIL-38-2011
May 25, 2011

Deposit Insurance Notice Requirement Regarding the Payment of Interest on Demand Deposit Accounts

Summary: Under a provision of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), insured depository institutions (IDIs) may pay interest on demand deposit accounts (DDAs) starting July 21, 2011. Under another section of the Dodd-Frank Act, the FDIC provides unlimited deposit insurance for noninterest-bearing transaction accounts through December 31, 2012. The purpose of this Financial Institution Letter (FIL) is to remind IDIs that if on or after July 21, 2011, an IDI modifies the terms of a DDA so that the account may pay interest, the IDI must notify affected customers that the account no longer will be eligible for unlimited deposit insurance coverage as a noninterest-bearing transaction account.

Statement of Applicability to Institutions under $1 Billion in Total Assets: This FIL applies to all FDIC-insured institutions, including community banks.

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Related Topics:
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12 C.F.R. Part 330

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Highlights:

- Section 343 of the Dodd-Frank Act provides unlimited insurance coverage for noninterest-bearing transaction accounts at all IDIs from December 31, 2010 through December 31, 2012.
- Section 627 of the Dodd-Frank Act permits IDIs to pay interest on DDAs starting July 21, 2011.
- If on or after July 21, 2011, an IDI modifies the terms of a DDA so that the account may pay interest, the IDI must notify affected customers that the account no longer will be eligible for unlimited deposit insurance coverage as a noninterest-bearing transaction account.
- This notice requirement does not apply to DDAs modified after December 31, 2012. As of January 1, 2013, noninterest bearing transaction accounts are insured subject to the standard maximum deposit insurance amount of $250,000.

Notice Requirement in Final Rule Implementing Dodd-Frank Act Provision on Unlimited Coverage for Noninterest-bearing Transaction Accounts

On November 9, 2010, the FDIC's Board of Directors issued a final rule implementing section 343 of the Dodd-Frank Act (see FIL-76-2010). Section 343 of the Dodd-Frank Act provides unlimited insurance coverage for noninterest-bearing transaction accounts at all insured depository institutions (IDIs) from December 31, 2010 through December 31, 2012. The final rule imposes certain notice requirements, including the requirement that if an IDI modifies the terms of a deposit account so that the account no longer will be eligible for unlimited deposit insurance coverage, the institution "must notify affected customers and clearly advise them, in writing, that such actions will affect their deposit insurance coverage." As explained in the preamble to the final rule, this notice requirement is intended primarily to apply when IDIs begin paying interest on demand deposit accounts (DDAs), permitted beginning July 21, 2011, under section 627 of the Dodd-Frank Act (see FIL-23-2011).

Therefore, if on or after July 21, 2011, an IDI modifies the terms of a DDA so that the account may pay interest, the IDI must notify affected customers that the account no longer will be eligible for unlimited deposit insurance coverage as a noninterest-bearing transaction account. The FDIC has not imposed specific requirements as to the form of the notice. Rather, the FDIC expects IDIs to act in a commercially reasonable manner and to comply with applicable state and federal laws and regulations in informing depositors of changes to their account agreements.

The notice requirement for noninterest-bearing transaction accounts that convert to interest-bearing accounts does not apply to DDAs modified after December 31, 2012. As of January 1, 2013, all transaction accounts, whether they pay interest or not, will be insured up to the standard maximum deposit insurance amount, which currently is $250,000.

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