

DEPOSIT PROMOTIONS AND COMPLIANCE



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Does your financial institution want to give deposit promotions but feel that you can't due to strict compliance regulations? The good news is that you can! Your financial institution simply has to follow just two guidelines and you are able to use deposit promotions effectively and in compliance. The results will exceed expectations.

Bankers aggressively promote free checking accounts. Usually, the checking account is a non-interest bearing checking account commonly called a Demand Deposit Account (DDA). DDA accounts are covered by the Federal Reserve's Regulation Q (12 C.F.R. §217). All banking regulators have a similar rule.

Regulation Q explains in detail on how merchandise can be giving to customers when opening an account that does not earn interest by following regulated guidelines. Regulation Q has several stipulations that will allow, if followed, giving customers merchandise, gifts or premiums on a Demand Deposit Account. **If Regulation Q applies, the merchandise is not considered interest.**

Premiums on DDA Deposits

Section, 12 CFR §217.101 outlines how a bank may give a gift or premium if the account does not earn interest. There are two parts of Regulation Q: the first part limiting the value of premiums to \$10 or \$20 when the DDA has a monthly or ongoing balance requirement **and** the second part pertaining to a length of time requirement that the account must be open. **If the DDA does not have BOTH the time and balance requirement, there is no restriction on the value or the number of premiums that may be given to customers.**

Time and Balance Requirement

Regulation Q regards premiums, whether in the form of merchandise, credit, or cash, given by a bank to a depositor as an advertising or promotional expense rather than a payment of interest if:

- § When opening an account or making an addition to an existing account;
- § When no more than two premiums are given within a 12-month period per account; and
- § When the value of the premium (which includes taxes, shipping, warehousing, packaging, and handling cost) does not exceed \$10 for deposits of less than \$5,000 or \$20 for deposits of \$5,000 or more.

In short, Regulation Q says that a gift cannot be worth more than \$10 if the opening deposit is less than \$5,000.00 or \$20 if the opening deposit is more than \$5,000.00 when there are time and balance requirements. Also, only two premiums are allowed per account per year.

No Time and Balance Requirement

Regulation Q states:

Any premium that is not, directly or indirectly, related to or dependent on the balance in a Demand Deposit Account including the duration of the account balance shall not be considered the payment of interest on a Demand Deposit Account resulting to not being subject to the \$10 and \$20 limitations.

This section of the regulation says that \$10 and \$20 rule does not apply if the customer does not have to maintain a specific balance **and** maintain this balance over a period of time. If this condition is met, the bank may give the customer a premium of any amount and the value is not considered interest on a DDA. ♦

MAKE IT LEGAL

If you are planning a travel incentive program, you will want to be sure to clear any legal hurdles. Following are suggested guidelines to follow:

- ❖ If the DDA does not have BOTH the time and balance requirement, there is no restriction on the value or the number of premiums that may be given to customers.
- ❖ The minimum to open an account is not the minimum balance to maintain the account after it is opened. Since there is no ongoing balance requirement, nor a time period that funds must be on deposit, a gift greater than \$10 could be given to the customer.