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March 28, 2008

Jennifer J. Johnson, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551

RE: Comments on Docket No. R-1307; Regulation D's "Six-Three Distinction"

Dear Ms. Johnson:

On behalf of the National Association of Federal Credit Unions (NAFCU), the only trade association that exclusively represents the interests of our nation's federal credit unions (FCUs), I am writing in response to the Board of Governors of the Federal Reserve System's (Board) request for comment on the proposed amendments to Regulation D and Regulation I. Specifically, NAFCU would like to take the opportunity to express our views on the Board's proposal to remove the "six-three distinction" for savings account transfers.

First and foremost, NAFCU commends the Federal Reserve Board for taking action to begin to modernize Regulation D. NAFCU has heard from many of its member credit unions on this subject year after year, and we have on several occasions urged the Board to pursue an increase in the six-transfer limitation on convenient transfers. NAFCU members strongly believe that our current technology-driven financial marketplace necessitates a change in Regulation D's six-transfer limitation. NAFCU applauds the Board for taking a positive first step to review and revise the transfer restrictions on savings deposits. However, we continue to believe the Board has the discretionary authority necessary to go further in relaxing the regulatory restrictions on savings deposits within the confines of the Federal Reserve Act. We elaborate on these points in more detail below.

The Six-Three Distinction Should be Eliminated

Currently, Regulation D imposes a monthly limit of six convenient transfers from savings deposits and of those six transfers no more than three can be made by check, debit card, or similar order. The Board's proposal would remove the "six-three distinction" by amending the definition of "savings deposit" to eliminate the limitation of certain types of transfers from savings deposits to a maximum of three per month. With this distinction removed, all convenient transfers from savings deposits would be uniformly subject to the limit of six transfers per month. NAFCU strongly supports the removal of the six-three distinction.

NAFCU member credit unions nearly universally agree that the "six-three distinction" is outdated, confusing, and burdensome and should be eliminated. We consistently hear concerns from credit unions that Regulation D's six transfer limitation as a whole is frustrating for their members and difficult for credit union staff to explain or justify to disgruntled consumers. Consumers do not understand the transfer limitations and are often upset that they can not have free access to their own funds. The six-three distinction to the transfer limitation is even more difficult to explicate, especially given the ongoing evolution towards greater and greater usage of debit and plastic cards. Furthermore, technological advances have blurred the distinction between the different categories of transactions, exacerbating an already difficult member service issue.

Accordingly, NAFCU wholly supports the proposal to simplify Regulation D's transfer limitation for savings accounts by eliminating the "six-three distinction."

The Six Transfer Limitation Should be Increased

Although the proposal would eliminate the three per month limit on certain types of transfers from savings accounts, the Board would continue to maintain a six per month limit on all convenient transfers from savings accounts. While we appreciate the Board's efforts to begin to ease the unnecessary restrictions imposed by Regulation D, NAFCU persists in the hope that the agency will still further relax the six transfer limitation requirement.

NAFCU strongly believes that Regulation D's six-transfer limitation should be revised. With the ever increasing use of technology, the financial industry has changed dramatically since the "six per month" rule was first established in the 1980's. Indeed, traditional mechanisms for accessing accounts with financial institutions have evolved significantly since that time. In this digital age, more and more credit union members are taking advantage of electronic transfers and, as noted above, it is becoming increasingly difficult for members to understand and accept these restrictions.

Further, Regulation D's convenient transfer limitation imposes a considerable compliance burden on credit unions and other federal depository institutions. As the popularity of online account management has grown, electronic transactions have become more frequent, resulting in an increased burden on financial institutions to monitor their savings accounts for compliance with the six-transfer rule. For members who continue to violate the limits, credit unions must expend significant resources in contacting account holders, reclassifying or closing accounts (or placing funds into another account eligible for multiple withdrawals), or removing the transfer and draft features of the account.

Today's financial marketplace is very highly regulated and all federal depository institutions face a tremendously heavy regulatory burden. Small institutions in particular are struggling under the weight of this mounting burden. NAFCU firmly believes that any obsolete, outdated, or unnecessary regulatory requirements—such as Regulation D's transfer limitations—must be eliminated to the greatest extent possible to ensure that continued strength and vitality of our financial system as a whole.

Many within the credit union community believe that the convenient transfer limit should be eliminated altogether. NAFCU, however, recognizes that the intent behind the six-transfer limitation is to prevent evasions of the reserve requirements imposed by the Federal Reserve Act. Acknowledging the Board's important role in controlling monetary policy and Regulation D's purpose to ensure sufficient liquidity in the financial marketplace, we do not suggest that the savings account transaction limitation be completely eliminated. However, NAFCU does feel that the transfer limitations on savings accounts should be increased to an amount that is more compatible with current electronic usage of financial accounts. Thus, NAFCU recommends and encourages an increase to Regulation D's six transfer limitation. For example, many of NAFCU's members have suggested that a numeric limitation somewhere in the range of 15 to 20 monthly transfers would be appropriate.

NAFCU appreciates the opportunity to comment on this proposed rulemaking. Should you have any questions or require additional information please call me or Pamela Yu, NAFCU's Associate Director of Regulatory Affairs at (703) 522-4770 or (800) 336-4644 ext. 218.

Sincerely,

B. Dan Berger
Senior Vice President of Government Affairs

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