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MEMORANDUM

May 20, 2016

To Our Clients and Friends

Re: Interagency Guidance Regarding Deposit Reconciliation Practices

The Federal Reserve Board, Consumer Financial Protection Bureau, Federal Deposit Insurance Corporation, National Credit Union Administration and Office of the Comptroller of the Currency (the “Agencies”) have issued supervisory guidance regarding customer account deposit reconciliation practices.

The following is a summary of the highlights of the Agencies’ guidance:

Deposit Discrepancies. When a customer makes a deposit to an account, the amount the financial institution credits to the account may differ from the total of the items deposited because of inaccuracies on the deposit slip, encoding errors or poor image capture.

The Agencies observe that financial institutions use a variety of approaches to handle deposit discrepancies. The Agencies state that technological and other processes exist that allow financial institutions to “fully reconcile discrepancies” in deposit accounts. However, they also acknowledge that under limited circumstances items cannot be reconciled, for example, when an item is damaged to the point that its true amount cannot be determined. The Agencies do not provide any other examples of when a financial institution cannot reconcile a deposit discrepancy.

Applicable Federal Laws. The guidance indicates laws that may be relevant to deposit reconciliation practices, including the Expedited Funds Availability Act, as implemented by Regulation CC, Section 5 of the Federal Trade Commission Act which prohibits unfair or deceptive acts or practices, and the Dodd-Frank Act which prohibits unfair, deceptive or abusive acts or practices.

Agency Expectations. The Agencies expect financial institutions to adopt deposit reconciliation policies and practices that are designed to avoid or reconcile discrepancies or to resolve discrepancies such that customers are not disadvantaged. Financial institutions should implement effective compliance management systems that include appropriate policies, procedures, internal controls, training and oversight and review processes to ensure compliance with applicable laws and regulations and fair treatment of customers. In addition, information

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provided to customers about the financial institution's deposit reconciliation practices should be accurate.

Consumer and Business Accounts. The Agencies do not distinguish in the guidance between deposit discrepancies arising in consumer or business customer accounts.

A copy of the Agencies' guidance can be found on our website at <http://www.schwartzandballen.com/news.html>

If you have any questions, please call Gilbert Schwartz, Robert Ballen, Tom Fox, or Heidi Wicker at (202) 776-0700.