



PENNSYLVANIA ASSOCIATION OF COMMUNITY BANKERS

THE VOICE FOR COMMUNITY BANKING IN PENNSYLVANIA SINCE 1876

Consumer Tips May 2010: New Rules for Bank Overdraft Protection

New federal rules require debit and ATM card users to grant permission if they want certain overdrafts covered by their bank. Shortly, banks will offer you the ability to make decisions about overdrafts for transactions made with your debit or ATM cards. An overdraft occurs when you make a purchase or ATM transaction but don't have enough money in your account. For a fee, your bank will pay when you become overdrawn. In the next few weeks, your bank will likely send you an explanation about how it treats overdrafts and will ask you to respond.

Generally, banks cover your overdrafts through either courtesy overdraft practices or overdraft protection plans.

With courtesy overdraft practices, your bank covers your transaction for a flat fee of about \$20-30 each time you overdraw your account. For example, if you make a purchase with your debit card for \$150 but only have \$100 in your account, your account will be overdrawn by \$50 and your bank will charge you a fee. With overdraft protection plans, your bank may offer a line of credit or a link to your savings account to cover transactions when you overdraw your account. Banks typically charge a fee each time you overdraw your account.

In the past, some banks automatically enrolled you in their courtesy overdraft practices for all types of transactions. Under the new rules, your bank must first get your permission to apply its courtesy overdraft practices to everyday debit card and ATM transactions before you can be charged overdraft fees. To grant this permission, you will need to respond to the notice and opt in.

If you do not opt in, beginning August 15, 2010, your bank's courtesy overdraft practices won't apply to your everyday debit card and ATM transactions. These

transactions typically will be declined when you don't have enough money in your account.

If you open a new account on or after July 1, 2010, you must opt in if you want courtesy overdraft for everyday debit card and ATM transactions. If you open an account before July 1, 2010, you will receive a notice about your bank's courtesy overdraft practices and will have to respond if you wish to opt in.

If you opt in, you can cancel at any time. If you do not opt in, you can do so later.

The new rules do not cover checks or automatic bill payments that you may have set up for paying bills such as your mortgage, rent, or utilities. Your bank may still automatically enroll you in their courtesy overdraft practices for these types of transactions. If you do not want the service, you will need to contact your bank to determine if they will allow you to cancel.

Source: Board of Governors of the Federal Reserve System

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