

Federal Reserve Bank of San Francisco
101 Market Street, San Francisco, California 94105

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To State Member Banks, Bank
Holding Companies, Financial Holding
Companies, and Foreign Bank Offices
in the Twelfth Federal Reserve District

Federal Reserve Announces Final Rules Prohibiting Institutions from Charging Fees for Overdrafts on ATM and One-Time Debit Card Transactions

The Federal Reserve Board announced final rules on November 12, 2009 that prohibit financial institutions from charging consumers fees for paying overdrafts on automated teller machine (ATM) and one-time debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

Before opting in, the consumer must be provided a notice that explains the financial institution's overdraft services, including the fees associated with the service, and the consumer's choices. The final rules, along with a model opt-in notice, are issued under Regulation E, which implements the Electronic Fund Transfer Act.

"The final overdraft rules represent an important step forward in consumer protection," said Federal Reserve Chairman Ben S. Bernanke. "Both new and existing account holders will be able to make informed decisions about whether to sign up for an overdraft service."

The Board's consumer testing shows that most consumers prefer not to be enrolled in overdraft services for ATM and one-time debit card transactions unless they affirmatively consent, or opt in. At the same time, testing shows that most consumers want overdraft services to cover important bills, such as checks they use to pay rent, utilities, and telephone bills.

To ensure that consumers have a meaningful choice, the final rules prohibit financial institutions from discriminating against consumers who do not opt in. The final rules require institutions to provide consumers who do not opt in with the same account terms, conditions, and features (including pricing) that they provide to consumers who do opt in. For consumers who do not opt in, the institution would be prohibited from charging overdraft fees for any overdrafts it pays on ATM and one-time debit card transactions.

"Overdraft fees can be costly," said Governor Elizabeth A. Duke, the chair of the Board's Committee on Consumer and Community Affairs. "Our rule will help consumers better understand the terms and conditions of overdraft services and will give them an opportunity to avoid fees when these services do not meet their needs."

The Federal Register notice is attached. The final rules are effective July 1, 2010.

Additional Information

All circulars and documents are available on the Internet through the Federal Reserve Bank of San Francisco's website, at <http://www.frbsf.org/banking/letters>.

For additional information, please contact:

Federal Reserve Bank of San Francisco
Banking Supervision and Regulation
(415) 974-3214

Attachments: [Federal Register Notice: Regulation E Final Rule](#)
[Regulation E Highlights](#)
[Model Form A-9](#)
[Design and Testing of Overdraft Disclosures: Phase Two](#)