

**Amended as of 02/03/2026**

On 02/03/2026, this bulletin was revised to remove references to reputation risk.

## **Background**

As highlighted by the FDIC's November 2008 *Study of Bank Overdraft Programs*, institutions continue to expand the types of overdraft payment programs provided to consumers. With changes in technology, the range of services and number of transactions potentially causing an overdraft has broadened to include not only paper checks, but also automated teller machine (ATM) withdrawals, point-of-sale (POS) debit card use, preauthorized debits, telephonic fund transfers, and online banking transactions. Program participation has sometimes been based on automatic enrollment, and customers may not have fully understood the risks and potential costs involved.

Overdraft fees can exceed the amount of the overdraft and can occur multiple times in a single banking day, depending on the type and amount of transactions and the transaction-clearing practices of the institution. For example, batch processing checks and clearing them from largest to smallest likely increases the number of items triggering an overdraft.

Extremely high costs in comparison to the overdraft benefit and/or permitting product over-use often result in customer dissatisfaction and complaints. Serious financial harm can result for customers with a low or fixed income.

## **Overview of Comments Received**

On August 11, 2010, the FDIC issued its proposed overdraft payment supervisory guidance (FIL-47-2010) for public comment. The agency received more than 900 written comments from a range of financial institutions and industry trade groups, individual consumers, consumer advocacy and public interest groups, and one member of Congress.

Most financial institution and industry commenters expressed concern about regulatory burden, especially in light of recent implementation of new Federal Reserve Board (FRB) overdraft-related requirements.<sup>1</sup> A number of institutions raised specific questions about implementation of the guidance. Industry commenters raised concerns regarding the appropriateness or degree of: (a) involvement expected by boards of directors in program oversight; (b) triggers for excessive use of overdrafts; (c) costs and utility of contact with customers with a significant number of overdrafts to discuss alternatives; (d) daily limits on fees and restrictions on transaction posting order; and (e) instituting an opt-out policy for non-electronic transactions. Also, some industry commenters had concerns that the guidance might create an unlevel playing field with other depository institutions.

Most individual consumer commenters supported the guidance. Many consumers gave specific examples of situations where they were subject to repeated and often disproportionate automated overdraft program fees. Consumers raised concerns about bank practices to maximize overdraft fees, confusion over disclosures of account balances, and transaction processing order.

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<sup>1</sup> The FRB issued overdraft related requirements under Regulation DD (Truth in Savings Act) and Regulation E (Electronic Fund Transfer Act).

Consumer advocacy and public interest groups generally supported the guidance, but encouraged the FDIC to take additional measures to address excessive use and fees, such as: (a) requiring absolute fee limits; (b) mandating that a consumer always receive the lowest-cost option available; (c) requiring an opt-in requirement for all types of overdraft transactions; (d) restricting aggressive “marketing” of opting-in to overdraft coverage for ATM and one-time point-of-sale (POS) transactions, as now required by Regulation E; and (e) a prohibition on manipulating transaction processing.

After reviewing public comments, the FDIC continues to believe that there are significant safety and soundness risks associated with many overdraft payment programs. The final guidance incorporates suggestions from commenters to refine and clarify expectations. The final guidance is intended to assist FDIC-supervised institutions in identifying, managing and mitigating risks associated with overdraft payment programs, including risks that could result in serious financial harm to certain consumers relative to one of the core products offered by many insured depository institutions.

## **Supervisory Expectations**

The FDIC expects institutions to implement effective compliance and risk management systems, policies, and procedures to ensure that institutions manage any overdraft payment programs in accordance with the attached 2005 *Joint Guidance on Overdraft Protection Programs*<sup>2</sup> (*Joint Guidance*) (FIL-11-2005) and the FRB November 12, 2009 amendments to Regulation E, to avoid harming consumers or creating other compliance, operational, financial, or other risks. As changes are made to overdraft payment programs in response to regulatory developments or to implement additional recommendations, institutions are reminded to ensure that customer communications (e.g., agreements, correspondence, marketing materials, etc.) are updated accordingly, present information accurately and are not misleading.

The FDIC is particularly concerned about the risks posed by automated overdraft payment programs, which are established programs, often partially or fully computerized, that are used by institutions to determine whether non-sufficient fund (NSF) transactions qualify for overdraft coverage based on pre-determined criteria. Ad hoc overdraft payments typically involve irregular and infrequent occasions on which a bank employee exercises discretion in a specific instance about whether to pay an item or not, as a customer accommodation and not on a pre-determined or formulaic basis. Such ad hoc activities are not the focus of this guidance. Similarly, linked lines of credit are not the focus of this guidance. Management should also ensure that all overdraft payment and line of credit practices conform to all applicable laws and regulations. To mitigate safety and soundness and compliance risks, and avoid violations of related laws and regulations, the FDIC expects its supervised institutions to take the following actions regarding automated overdraft payment programs:

- Ensure that boards of directors provide appropriate oversight of programs, consistent with their ultimate responsibility for overall compliance, and that on an ongoing and regular basis management provides oversight of program features and operation. Appropriate steps include an annual review of an overdraft program’s key features.

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<sup>2</sup> 70 Fed. Reg. 9127 (Feb. 24, 2005).

- Review their marketing, disclosure, and implementation of such programs to minimize potential consumer confusion and promote responsible use.
- Train staff to explain program features and other choices.
- Prominently distinguish account balances from any available overdraft coverage amounts. Note also that, as of January 1, 2010, Regulation DD (Truth in Savings Act) prohibits institutions from including overdraft coverage amounts in any account balance information provided by an automated system.<sup>3</sup>
- Monitor programs for excessive or chronic customer use, and if a customer overdraws his or her account on more than six occasions where a fee is charged in a rolling twelve-month period, undertake meaningful and effective follow-up action, including, for example:
  - Contacting the customer (*e.g.*, in person or via telephone) to discuss less costly alternatives to the automated overdraft payment program such as a linked savings account, a more reasonably priced line of credit consistent with safe and sound banking practices, or a safe and affordable small-dollar loan;<sup>4</sup> and
  - Giving the customer a reasonable opportunity to decide whether to continue fee-based overdraft coverage or choose another available alternative.
- Institute appropriate daily limits on customer costs by, for example, limiting the number of transactions that will be subject to a fee or providing a dollar limit on the total fees that will be imposed per day.
- Consider eliminating overdraft fees for transactions that overdraw an account by a de minimis amount.<sup>5</sup>
- Consider employing cost effective, existing technology, as appropriate (*e.g.*, text message, e-mail, telephone or cell phone) to alert customers when their account balance is at risk of generating a fee for nonsufficient funds.
- Consider providing information to consumers about how to access free or low-cost financial education workshops or individualized counseling to learn how to more effectively manage personal finances. If an institution's community-based partners do not already provide counseling, the Federal Trade Commission's (FTC) *Choosing a Credit Counselor*<sup>6</sup> may be one resource to help institutions choose quality credit counseling partners.

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<sup>3</sup> 12 C.R.R. § 230.11(c). Institutions may, but are not required to, provide a second account balance that does include overdraft coverage amounts if the distinction between the two is prominently stated. *Id.*

<sup>4</sup> See *A Template for Success: The FDIC's Small-Dollar Loan Pilot Program* which provides a template for safe and affordable small-dollar loans ([http://www.fdic.gov/bank/analytical/quarterly/2009\\_vol3\\_2/small-dollar.html](http://www.fdic.gov/bank/analytical/quarterly/2009_vol3_2/small-dollar.html)).

<sup>5</sup> If a fee is charged, such fee should be reasonable and proportional to the amount of the original transaction.

<sup>6</sup> <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>.

- Review check-clearing procedures of the institution and any third-party vendor to ensure they operate in a manner that avoids maximizing customer overdrafts and related fees through the clearing order. Examples of appropriate procedures include clearing items in the order received or by check number.
- Monitor and, where necessary, mitigate credit, legal, safety and soundness, and other risks, as appropriate. Legal and compliance risks associated with overdraft payment programs include: Section 5 of the Federal Trade Commission Act, the Equal Credit Opportunity Act, the Truth in Savings Act, the Electronic Fund Transfer Act, as well as related implementing regulations and any changes to those regulations or statutes.

## **Regulation E Requirements**

Under new Regulation E requirements that took effect on July 1, 2010, institutions must provide notice and a reasonable opportunity for customers to opt-in to the payment of ATM and POS overdrafts for a fee. In complying with these requirements, institutions should not attempt to steer frequent users of fee-based overdraft products to opt-in to these programs while obscuring the availability of alternatives. Targeting customers who may be least able to afford such products such as through aggressive advertising or other promotional activities can raise safety and soundness concerns about potentially unsustainable consumer debt. Any steering activity with respect to credit products raises potential legal issues, including fair lending, and concerns about unfair or deceptive acts or practices (UDAPs), among others, and will be closely scrutinized.

Although the FRB did not address the payment of overdrafts resulting from non-electronic transactions, such as paper checks or automated clearing house (ACH) transfers, the FDIC believes institutions should allow customers to decline overdraft coverage (*i.e.*, opt-out) for these transactions and honor an opt-out request.<sup>7</sup>

In addition, the FDIC encourages institutions to remind their customers, especially chronic or excessive users of overdraft programs, that even if they have chosen to opt-in to the payment of ATM and POS overdrafts for a fee, at any time they can still choose to opt-out of ATM and POS overdraft programs.

## **Examinations**

Overdraft payment programs will be reviewed at each examination. Overdraft payment programs that are found to pose unacceptable safety and soundness or compliance risks will be factored into examination ratings and corrective action will be taken where necessary.

Institutions that use third party arrangements will be expected to follow the attached 2008 *Guidance for Managing Third-Party Risk*.

Institutions should review the FDIC's 2004 guidance (issued jointly with the FRB) on *Unfair or Deceptive Acts or Practices by State-Chartered Banks* (FIL-26-2004). Section 5 of the FTC Act prohibits UDAPs in or affecting commerce,<sup>8</sup> and the FDIC enforces compliance with this

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<sup>7</sup> Revised Regulation E provides consumers with an ongoing right to rescind their prior opt-in to coverage of ATM and POS overdrafts.

<sup>8</sup> 15 U.S.C. § 45(a).

important consumer protection law by FDIC-supervised institutions pursuant to its authority under the FTC Act and section 8 of the Federal Deposit Insurance Act.<sup>9</sup>

The prohibition against UDAPs applies to all products and services offered by financial institutions, including automated overdraft payment programs, and regardless of whether such programs are offered directly or indirectly through a third party.

In addition, as stated in the *Joint Guidance*:

“Under the Equal Credit Opportunity Act (ECOA) and Regulation B, creditors are prohibited from discriminating against an applicant on a prohibited basis in any aspect of a credit transaction. This prohibition applies to overdraft protection programs. Thus, steering or targeting certain consumers on a prohibited basis for overdraft protection programs while offering other consumers overdraft lines of credit or other more favorable credit products or overdraft services, will raise concerns under the ECOA.”

The FDIC expects institutions to employ measured and appropriate follow-up with customers pursuant to this guidance, as compared with inappropriate efforts to coerce consumers to opt-in. Inconsistent application of waivers of overdraft fees will be evaluated in light of all applicable fair lending statutes and regulations.

Institutions will continue to receive favorable CRA consideration for offering positive alternatives to overdrafts that are responsive to the needs of the customers in their local communities. For example, FDIC examiners will inquire about and consider favorably lower cost transaction accounts and credit alternatives, such as small dollar loans and overdraft lines of credit, which are responsive to consumer needs, particularly those of low- and moderate-income individuals. FIL-50-2007<sup>10</sup> provides additional details on small-dollar loans.

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<sup>9</sup> See 12 U.S.C. § 1818(b).

<sup>10</sup> <http://www.fdic.gov/news/news/financial/2007/fil07050.html>.