



Federal Deposit Insurance Corporation
550 17th Street NW, Washington, D.C. 20429-9990

Financial Institution Letter
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OVERDRAFT PROTECTION PROGRAMS

Joint Agency Guidance

Summary: The federal banking and credit union regulatory agencies are issuing the attached joint guidance on overdraft protection programs. The guidance details safety and soundness considerations, outlines federal regulations as they pertain to these programs, and lists a variety of industry best practices.

Distribution:

FDIC-Supervised Banks (Commercial and Savings)

Suggested Routing:

Chief Executive Officer
Compliance Officer
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Related Topics:

Truth in Savings Act
Regulation DD
Allowance for Loan and Lease Loss Methodologies

Attachment:

Joint Guidance on Overdraft Protection Programs

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Note:

FDIC financial institution letters (FILs) may be accessed from the FDIC's Web site at www.fdic.gov/news/news/financial/2005/index.html.

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Highlights:

- Safety and soundness considerations are outlined, including a 60-day charge-off period, adopting appropriate policies, and Call Report requirements.
- Key legal issues, including compliance with certain federal laws, are discussed as they pertain to overdraft protection programs.
- A variety of best practices currently found to be in use or recommended by the industry are listed, including marketing and communications that accompany the offering of overdraft protection services, as well as disclosures and operations of program features.

OVERDRAFT PROTECTION PROGRAMS
Joint Agency Guidance

The Federal Deposit Insurance Corporation (FDIC), the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the National Credit Union Administration (the Agencies) are jointly issuing the attached guidance on overdraft protection programs.

Overdrawn accounts and ad-hoc overdraft approvals have always been part of bank deposit programs. For many years, overdrafts have been managed by tying them to other deposit accounts, lines of credit or credit cards. Recently, however, programs have been developed that improve banks' ability to automate decisions about whether to pay checks drawn against insufficient funds. These programs are frequently purchased from a vendor and are advertised to the consumer. While both the availability and customer acceptance of these overdraft protection services have increased, aspects of the marketing, disclosure and implementation of some of these programs have raised concerns with the Agencies.

The guidance discusses:

- the historical and traditional approaches to providing consumers with protection against account overdrafts, and contrasts those approaches with the more recent overdraft protection services now marketed to consumers;
- existing and potential concerns of the regulatory agencies surrounding the offering and administration of such overdraft protection services;
- safety and soundness considerations, such as a 60-day charge-off requirement and whether institutions offering overdraft protection services have adopted adequate policies and procedures to address the credit, operational and other risks associated with these services;
- key legal issues, including compliance with all federal and state laws; and
- best practices found to be in use or recommended by the industry, including marketing and communications that accompany the offering of overdraft protection services, as well as the disclosure and operations of program features.

This final joint guidance incorporates changes made by the Agencies to provide clarity and address commenter concerns.

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