



PRESS RELEASE

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FOR IMMEDIATE RELEASE
August 11, 2010

Media Contact:
Michele Heller (202) 898-3679
mheller@fdic.gov
or
David Barr (202-898-6992)
dbarr@fdic.gov

FDIC Sets Out Overdraft Payment Program Guidance Public Comment Sought

The Federal Deposit Insurance Corp. today proposed guidance for public comment on how the banking institutions it supervises should implement and maintain robust oversight of automated overdraft payment programs.

The proposal primarily focuses on finding effective ways for banks to monitor their overdraft programs for excessive or chronic use by customers as a form of short-term, high-cost credit instead of its intended use: protection against inadvertent overdrafts. It also provides an overview of how banks can avoid compliance and safety-and-soundness risks.

"This guidance proposes common-sense ways to mitigate risks to both consumers and banks. Ensuring that their customers are educated on the appropriate use of overdraft payment programs is just one more example of how community banks understand their customers and play a role in helping individuals find suitable financial products," FDIC Chairman Sheila C. Bair said.

Under new rules (Regulation E) that recently took effect, banking institutions already must give customers an opportunity to opt-in to programs that charge a fee to cover ATM and point-of-sale overdrafts.

The proposed guidance stems from both the FDIC's November 2008 *Study of Bank Overdraft Programs* that disclosed growing use of overdraft payment programs in the financial services industry, and a spike in consumer complaints to the FDIC related to overdraft protection programs, with the number almost doubling from 2008 to 2009.



Congress created the Federal Deposit Insurance Corporation in 1933 to restore public confidence in the nation's banking system. It promotes the safety and soundness of these institutions by identifying, monitoring and addressing risks to which they are exposed. The FDIC receives no federal tax dollars — insured financial institutions fund its operations.

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Sandra L. Thompson, Director of the FDIC's Division of Supervision and Consumer Protection, said: "Overdraft programs are not intended to be used as a regular source of credit. There are cheaper alternatives. Relying on overdrafts can lead consumers to incur substantial and unnecessary costs, as well as pose reputational risks for the banking institution."

"Overdraft fees can exceed the amount of the overdraft benefit and can occur multiple times in a single day, depending on the type of transaction and clearing practices of the institution. When the cost is extremely high compared with the overdraft benefit, or when over-use of the product is allowed, the result is often customer dissatisfaction with both the product and the institution offering it," Thompson said. "Providing useful and appropriate information, and offering consumers choice along with sensible alternatives and options for short-term credit can be mutually beneficial to both institutions and consumers."

Comments may be submitted until September 27, 2010.

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Attachment:

[Financial Institution Letter on overdraft payment programs and consumer protection PDF.](#) ([PDF Help](#))
