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## **New Banking Overdraft Rule Set by the Fed**

The Federal Reserve System - also called the Federal Reserve or the Fed - is the central banking system of the United States. It has a number of unique powers and abilities, including being the only governmental body to print and distribute U.S. paper currency into circulation.

Originally founded in 1910 as a way to provide a system of checks and balances in the financial system and to prevent runs on banks, its roles and responsibilities have evolved over the years. In its current form, the Fed has the ability to influence monetary and credit conditions, regulate banking institutions, and provide financial services to depository institutions.

As an institution that has the ability to regulate banks, the Fed has been paying attention to legislative and consumer demands regarding banks' overdraft fee policies. In this capacity, many people have been wondering about the new law on overdraft bank fees.

In reality, it is technically a new rule rather than a new law. But, in every other way it is just as binding as a law, since banks are required to comply with the regulations set out by the Fed.

### **A Response to Rising Anger about Overdraft Fees**

The new rule was announced on November 12, 2009, but it goes into effect on July 1, 2010. It was created in response to a general sense of anger and frustration among consumers over what some believe are unfair or even predatory overdraft fee policies instituted by most major banks.

### **What the New Rule Requires**

Officially called Regulation E: Electronic Fund Transfers, the new Fed rule sets forth the following requirements of banks:

1. Requires that new bank customers be given the opportunity to opt-in (actively elect) to overdraft protection programs that allow ATM withdrawals and debit charges to be made, even when the account is at a zero balance. (Previously, most programs had been opt-out).
2. The final rule prohibits banks from discriminating against customers who do not opt in to an overdraft protection program.
3. Consumers who do not opt in will still be guaranteed access to the same account terms, conditions, features and pricing as customers who do opt in.

Of course, even with the new rule in place, banks will still continue to make billions of dollars per year in overdraft fees off of consumers. The only solution for customers to avoid these fees altogether is to switch to banks that do not charge overdraft fees - even if an account is overdrawn.