

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 79-174  
October 29, 1979

CHANGE IN POLICY REGARDING  
OVERDRAFTS IN RESERVE ACCOUNTS

TO ALL MEMBER BANKS AND  
OTHERS CONCERNED IN THE  
ELEVENTH FEDERAL RESERVE DISTRICT:

In the Interests of achieving equitable reserve maintenance procedures and of promoting sound banking practices, it is the policy of the Federal Reserve Bank of Dallas that reserve accounts should be maintained on a positive daily settlement basis. Overdrafts (negative balances) are discouraged and will be subject to imposition of a monetary charge. However, in recognition of the fact that an occasional overdraft may be unavoidable from the standpoint of the account holder, this Reserve Bank may, at its discretion, waive such monetary charge in consideration of the circumstances involved in each case. Of course, a negative balance resulting from a Federal Reserve error is not an overdraft for purposes of this policy and is not subject to monetary charge.

To discourage overdrafts, this Bank will implement on November 1, 1979, a policy calling for the imposition of monetary charges on overdrafts in reserve accounts. There is printed on the reverse of this circular a copy of this Bank's internal policy guidelines on overdrafts which will apply under our new overdraft policy. While only a few banks should be affected by the new policy, it will provide this Bank with a specific and systematic approach for dealing with those banks that continue to incur overdrafts.

Questions regarding this policy should be directed to Richard D. Ingram, Assistant Vice President at this Bank, Ext. 6333; Robert W. Schultz, Assistant Vice President at the El Paso Branch, (915) 544-4730; C. O. Holt, Jr., Assistant Vice President at the Houston Branch, (713) 659-4433; or Thomas H. Robertson, Assistant Vice President at the San Antonio Branch, (512) 224-2141.

Sincerely yours,

Robert H. Boykin

First Vice President

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Banks and others are encouraged to use the following incoming WATS numbers in contacting this Bank: 1-800-442-7140 (intrastate) and 1-800-527-9200 (interstate). For calls placed locally, please use 651 plus the extension referred to above.

## GENERAL GUIDELINES FOR THE WAIVER OR IMPOSITION OF CHARGES ON OVERDRAFTS

Negative balances or overdrafts in reserve accounts maintained with this Bank place the Bank in the position of making inadvertent extensions of credit which are improperly secured. In order to discourage overdrafts in accounts it maintains, effective November 1, 1979, the Federal Reserve Bank of Dallas will impose monetary charges on overdrawn accounts in accordance with the following policy:

- Each overdrawn account for which a charge is not waived will be assessed a monetary charge calculated at a 10 percent annual percentage rate (charge per day =  $(.10 \times \text{overdraft amount}) / 365$  or  $366$  leap year), except that no charge shall be less than \$50.
- Overdrafts will be reviewed on a case-by-case basis and charges may be waived in consideration of the frequency of overdrafts and the circumstances involved. (The history of overdrafts prior to November 1, 1979 will not be considered in determining the imposition or waiver of charges.)
- An overdraft extending over a weekend or bank holiday will be considered as one occurrence. If a charge is imposed on such an overdraft, the charge will normally be assessed for only the first day that the negative balance is outstanding; however, if fluctuations in the Federal funds rates are sufficient to permit a bank to gain, intentionally or unintentionally, from a multiple-day overdraft, the rate will be applied for each day that the overdraft is outstanding. Moreover, for an account holder with zero reserve requirements and those maintaining vault cash in amounts sufficient to more than meet their reserve requirements, the charge will be assessed for each day that the negative balance is outstanding to insure that such institutions do not gain from overdrafts.
- A negative balance in a reserve account that is attributable to an error by a Federal Reserve Bank is not an overdraft subject to a charge.