

FEDERAL RESERVE BANK OF DALLAS

DALLAS, TEXAS 75222

Circular No. 81-209
October 29, 1981

POLICY CHANGE REGARDING MONETARY CHARGES FOR OVERDRAFTS IN RESERVE ACCOUNTS AND CLEARING ACCOUNTS

TO THE DEPOSITORY INSTITUTION ADDRESSED
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 and clearing accounts should be maintained on a positive daily settlement basis. Overdrafts (negative balances) are discouraged and are subject to a monetary charge. However, in recognition of the fact that an occasional overdraft may be unavoidable, 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 implemented a policy calling for the imposition of monetary charges on overdrafts in reserve accounts on November 1, 1979. The monetary charge, in effect since that time, has been calculated at a 10 percent annual percentage rate. However, due to an increased incidence of overdrafts, this Bank is revising the monetary charge for overdrafts to a rate of ten percentage points or two percentage points above the Federal funds rate on the date of the occurrence of each overdraft, whichever is greater. This new rate is effective for all overdrafts occurring on or after November 2, 1981. While only a few depository institutions should be affected by the new policy, it will provide a specific and systematic approach for dealing with overdrafts.

Printed on the reverse of this circular is this Bank's internal guidelines on overdrafts which will apply under the revised policy. Questions regarding this policy should be directed to Richard D. Ingram of this Bank, Ext. 6333; William L. Wilson, El Paso Branch, (915) 544-4730; C.O. Holt, Jr., Houston Branch, (713) 659-4433; or Tony G. Valencia, San Antonio Branch, (512) 224-2141.

Additional copies of this circular will be furnished upon request to the Department of Communications, Financial and Community Affairs, Ext. 6289.

Sincerely yours,



William H. Wallace
First Vice President

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

Overdrafts (negative balances) in reserve accounts and clearing 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 2, 1981, 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 rate of ten percentage points or two percentage points above the effective Federal funds rate on the date of the occurrence of each overdraft [charge per day = (a) $(.10 \times \text{overdraft amount})/365$ or 366 leap year, or (b) $(\text{effective Federal funds rate plus two percentage points} \times \text{overdraft amount})/365$ or 366 leap year], whichever is greater, 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.)
- A multiple-day overdraft extending over a weekend or bank holiday may be considered as one occurrence; however, depending upon the individual situation, a multiple-day overdraft may incur an overdraft charge for each day that the overdraft is outstanding at the discretion of this Bank. In addition, a multi-day rate for multiple-day overdrafts may be assessed if circumstances warrant. 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 and clearing account that is attributable to an error by a Federal Reserve Bank is not an overdraft subject to a charge.