

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8474
December 15, 1978

**CHANGE IN POLICY REGARDING OVERDRAFTS
IN RESERVE ACCOUNTS**

*To All Member Banks, and Others Concerned,
in the Second Federal Reserve District.*

Over the past several years, the volume and complexity of financial transactions throughout the banking system has increased appreciably. As a result, the rate of turnover in reserve balances held at this Bank has risen as has the turnover in balances throughout the financial system. These forces have increased the potential for overdrafts in the reserve accounts maintained at this Bank.

In the past, this Bank's general policy has been to discourage overdrafts largely through "moral suasion" and by requesting banks to review their internal procedures and take the necessary steps to avoid future overdrafts. This Bank also offers its assistance to help resolve problems that may be causing overdrafts. For the vast majority of banks, this policy has been effective. However, in recognition of the increased potential for overdrafts arising from the growth in the volume and complexity of transactions, this Bank will implement a more systematic and specific policy with respect to overdrafts in accounts that it maintains.

Beginning January 15, 1979, to further discourage overdrafts, this Bank will implement a policy calling for the imposition of monetary charges on overdrafts in reserve accounts. We recognize that, at times, overdrafts result from mistakes that are not subject to direct control of the overdrawn bank. Therefore, under the new policy this Bank will retain the discretion to waive overdraft charges in consideration of the circumstances involved in each case. I know, too, that often overdrafts are the direct result of mistakes of others. To the extent that charges are imposed on overdrafts caused by mistakes of third parties, we would expect that the banks affected would pass on the charges to the parties responsible.

Enclosed is a copy of this Bank's internal policy guidelines on overdrafts, which would 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 approach for dealing with those banks that continue to incur overdrafts.

I would be pleased to receive any specific comments you might have about the new overdraft policy. In the meantime, if you have any questions about the policy, please feel free to call, at our Head Office, Henry S. Fujarski, Assistant Vice President (Tel. No. 212-791-5266), or, at our Buffalo Branch, Peter D. Luce, Assistant Vice President and Cashier (Tel. No. 716-849-5013).

PAUL A. VOLCKER,
President.

**FEDERAL RESERVE BANK
OF NEW YORK**

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 January 15, 1979, the Federal Reserve Bank of New York 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 charge calculated at a rate 5 percentage points above the average rate for one-day Federal funds on the date that the overdraft occurs, 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 January 15, 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; however, if a charge is imposed on such an overdraft, the charge will be assessed for each day that the negative balance is outstanding.
- 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.