

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 8714
December 21, 1979

**MODIFICATION OF POLICY
REGARDING RESERVE ACCOUNT OVERDRAFTS**

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

Last January, in recognition of an increased potential for overdrafts as a result of growth in the volume of activity in reserve accounts and in the complexity of the financial system, this Bank implemented a policy calling for monetary charges on overdrafts in accounts that it maintains. Nearly a year has passed since the policy was put into effect, and I am pleased to report that there has been a significant reduction in the incidence of reserve account overdrafts. As anticipated when the policy was implemented, most member banks have not been affected by the policy because they do an effective job of managing their reserve positions.

Based on our first year's experience, we have decided to continue the policy, but with a few modifications that will become effective January 1, 1980. The most important change is that, in most cases, the charge applicable to a reserve account overdraft will be based on a flat ten percent annual rate. The rate presently used is equal to five percentage points above the average Federal funds rate on the day of the overdraft. As in the past, the Bank will continue to retain the discretion to waive overdraft charges in consideration of the circumstances of each case.

Overdrafts caused by correspondent banks and other third parties have decreased at an even greater rate than other overdrafts since the implementation of monetary charges last year. In the event that your bank should be charged for overdrafts that are the direct result of an error by a third party, we continue to encourage you to seek reimbursement from those responsible.

Enclosed is a copy of the revised General Guidelines for the Waiver or Imposition of Monetary Charges on Overdrafts, which reflects the new modifications. It is our hope that the improvements that we have seen in the past year will continue. I should also note that, based on the experience in the Second Federal Reserve District, the overdraft policy on which the guidelines are based is being adopted at all Federal Reserve Banks. I want to thank you for your cooperation, and I want to assure you that this Bank stands ready to assist in resolving any problems that you might experience in this regard.

If you have any questions about the policy, please feel free to call, at our Head Office, Henry S. Fujarski, 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).

THOMAS M. TIMLEN,
First Vice President.