

**FEDERAL RESERVE BANK
OF NEW YORK**

Circular No. 9169
October 23, 1981

**MODIFICATION OF POLICY REGARDING OVERDRAFTS
IN DEPOSIT ACCOUNTS**

*To All Depository Institutions
in the Second Federal Reserve District:*

In January 1979, this Bank implemented a policy for administering overdrafts in deposit accounts on its books. This policy called for the imposition of a monetary charge on overdrafts, while retaining this Bank's discretion to waive such charges in consideration of the circumstances involved in each case. Subsequently, a similar policy was adopted by all Reserve Banks.

On the basis of the Federal Reserve System's experience with this overdraft policy over the last year, the System has decided to continue the policy but with a modification in the rate of charge applicable to overdrafts that occur on or after November 2, 1981. Beginning on that date, the charge for overdrafts will be the greater of (a) 10 percent per annum or (b) two percentage points above the daily average Federal funds rate in effect on the date of the overdrafts as calculated by this Bank, instead of the flat 10 percent per annum rate now in effect. As in the past, overdrafts resulting from Federal Reserve errors will not be subject to the policy.

As we anticipated, in the nearly three years that have elapsed since the inception of this policy in the Second District, the vast majority of our account holders continue to do an effective job of managing their account balances and, in general, have not been affected by the policy. Notwithstanding the rate change we are making, we fully expect that the policy will continue to have little impact on most depository institutions.

Depository institutions generally recognize that even the current 10 percent charge, although lower than present prevailing market rates, represents a real cost. An institution overdrawn on one day must make up the entire overdraft plus any shortfalls in required reserves in order to meet its average reserve requirement for the period. Thus, overdrawn institutions receive no net benefit from the overdraft, yet may incur a monetary charge. The rate change is intended simply to discourage further overdrafts by the relatively small number of institutions that have an unsatisfactory record in this regard.

I want to acknowledge your continued cooperation and assure you that this Bank is available to assist in resolving any problems that you might experience in maintaining the proper level of account balances with us. Should you have any questions about the policy, please feel free to call, at our Head Office, John M. Eighmy, Assistant Vice President (Tel. No. 212-791-7766) or, at our Buffalo Branch, Gary S. Weintraub, Cashier (Tel. No. 716-849-5013).

ANTHONY M. SOLOMON,
President.