

**FEDERAL RESERVE BANK  
OF NEW YORK**

[ Circular No. **10699** ]  
[ March 17, 1994 ]

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

**Effective April 1, 1994**

*To All Depository Institutions in the Second Federal Reserve District,  
and Others Holding Deposit Accounts with this Bank:*

To promote effective account management practices, assure equitable treatment of all account holders, and reduce payments system risks, it is the policy of the Federal Reserve System that reserve/clearing accounts should be maintained on a positive daily settlement basis. To assure adherence to this policy, Reserve Banks impose a monetary charge for the occurrence of overnight overdrafts.

The Board of Governors of the Federal Reserve System recently reconsidered the overnight overdraft policy in light of historical changes in the Federal funds rate and Reserve Bank steps to reduce overnight overdrafts, and has adopted the following penalty rate structure effective April 1, 1994:

- The monetary penalty for an overnight overdraft will be calculated at a rate that is four percentage points above the effective Federal funds rate prevailing on the date the overdraft occurred. This is a change from the current rate which is two percentage points above the effective Federal funds rate or 10 percent, whichever is greater.
- In the case of institutions incurring an excessive number of overdrafts, the monetary rate will be increased by one percentage point for each occurrence over three in a moving 12-month period. This is a change from the current policy where the monetary rate may be increased by one-half of a percentage point for each occurrence over six in a moving 12-month period.
- The minimum monetary charge per occurrence will continue to be \$100.

Questions may be directed, at our Head Office, to Donald R. Anderson, Manager, Accounting Department (Tel. No. 212-720-5250) or, at our Buffalo Branch, to David P. Schwarzmuller, Operations Officer (Tel. No. 716-849-5018).

WILLIAM J. McDONOUGH,  
*President.*