



New Federal Reserve rules give debit and ATM card users additional options regarding overdrafts. In the coming months, banks, credit unions, and other financial institutions must offer you the ability to make decisions about overdrafts for transactions made with your debit or ATM cards.

The basic facts

An overdraft occurs when you make a purchase or ATM transaction but don't have enough money in your account to pay for it. For a fee, your bank will cover you when you become overdrawn. This fee can apply each time you overdraw your account.

Generally, banks can cover your overdrafts in one of two different ways:

- **Standard overdraft practices.** Your bank will cover your transaction for a flat fee of about \$20-30 **each** time you overdraw your account. For example, if you make a purchase with your debit card for \$150 but only have \$100 in your account, your account will be overdrawn by \$50 and your bank will charge you a fee. If you then make an ATM withdrawal for \$50, your account will be overdrawn by \$100 and you will be charged another fee. In this example, if the fee your bank charges for its standard overdraft practices is \$30, you will pay a total of \$60 in fees.
- **Overdraft protection plans.** Your bank may offer a line of credit or a link to your savings account to cover transactions when you overdraw your account. Banks typically charge a fee each time you overdraw your account, but these overdraft protection plans may be less expensive than their standard overdraft practices.

The new rules

- **You choose.** In the past, some banks automatically enrolled you in their standard overdraft practices for all types of transactions when you opened an account. Under the new rules, your bank must first get your permission to apply its standard overdraft practices to **everyday debit card and ATM transactions** *before* you can be charged overdraft fees. To grant this permission, you will need to respond to the notice and opt in (agree).
- **Existing accounts.** If you do not opt in (agree), beginning August 15, 2010, your bank's standard overdraft practices won't apply to your everyday debit card and ATM transactions. These transactions typically will be declined when you don't have enough money in your account, but you will not be charged overdraft fees.
- **New accounts.** If you open a new account on or after July 1, 2010, your bank cannot charge you overdraft fees for everyday debit card and ATM transactions unless you opt in. If you open a new account before July 1, 2010, your bank will treat you as an existing account holder: you will receive a notice about your bank's standard overdraft practices and will have to decide if you want them for everyday debit card and ATM transactions.
- **Flexibility.** Whatever your decision, the new overdraft rules give you flexibility. If you opt in, you can cancel at any time. If you do not opt in, you can do so later.

- **Checks and automatic bill payments.** The new rules **do not cover checks or automatic bill payments** that you may have set up for paying bills such as your mortgage, rent, or utilities. Your bank may still automatically enroll you in their standard overdraft practices for these types of transactions. If you do not want your bank's standard overdraft practices in these instances, talk to your bank; you may or may not have the option to cancel.

Useful terms

- **Everyday debit card transactions**
Purchases made with your debit card on a day-to-day basis (excludes all checks and automatic bill payments)
- **Overdraft**
An overdraft occurs when you write a check, make an ATM transaction, use your debit card to make a purchase, or make an automatic bill payment or other electronic payment for an amount greater than the balance in your checking account
- **Opt-in**
Giving your bank permission to include you in a particular service
- **Opt-out**
Declining a particular service offered by your bank