

New Fed Rule Issued On Overdraft Fees

November 13, 2009 - The Federal Reserve has just released a rule that will restrict the way that banks interact with their customers for overdraft fees. These fees are the largest single source of revenue for banks now. In 2009, it is estimated that banks will collect approximately \$38.5 Billion in debit card and checking account overdraft fees. The new rule will restrict these fees but they may very well be replaced with other substitute charges and they don't cover all types of purchases.

If you are old enough to remember the way that banks handled checking accounts 20 years ago, then you may be in for a case of *deja vous* - at least with regard to debit card purchases - when the new FED rule on overdraft fees goes into effect. That's because twenty years ago checking and bank accounts didn't automatically provide overdraft protection. In fact, to get that protection you had to have good credit and you would lose the protection if you used it more than two or three times in a year.

Checks would bounce when written on accounts that didn't provide overdraft protection when there were not sufficient funds in them, and debit card purchases would be denied. Then banks began to realize that it was more profitable to provide overdraft protection to everyone and charge high fees when they used it. Overdraft charges can be more than \$30 for every transaction you make when you don't have sufficient funds in your account. If you make several transactions in a day, each one of them can have an overdraft charge placed on it.

The new FED rule will require that banks get your permission before they allow you to make a purchase that would result in an overdraft fee. That means that if you are making a \$100 purchase using a debit card but only have \$90 in your account, if you have not given your bank permission to provide you with overdraft protection your purchase will be denied at the register.

ACCESS supports the new rule but they don't go far enough, especially if you don't balance your account regularly or if you still write checks. The new rules don't apply to checks. And they don't apply to recurring debit card charges, such as automatic bill paying. In fact, they only cover point of sale debit card charges and ATM withdrawals. Congress may change this. There are two bills currently being considered in Congress that would be significantly more restrictive on banks.

The new FED rule is set to go into effect on July 1, 2010 for new bank customers and then 45 days later for existing bank clients.

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