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Important Information About Overdraft Services

New federal law affects how overdraft services are provided for your account.

What is an overdraft service?

An overdraft service is when a financial institution pays a transaction even though a customer does not have sufficient funds available in the deposit account to cover the amount of the transaction. A fee is charged for this service. Most financial institutions provide this service automatically – customers do not have to apply for or select to use the overdraft services.

A plan that transfers money from a credit card, loan account, or another deposit account is not considered an overdraft service.

Does the financial institution have to pay the transaction if it overdraws the account?

No. The service is discretionary. The institution may authorize and pay the transaction or it may decline the transaction. For most institutions, if the transaction is paid, the customer is obligated to promptly bring the account to a positive balance.

What is the effect of the new federal law?

After August 15, 2010, financial institutions cannot provide overdraft services for ATM transactions or everyday debit transactions unless their customers have instructed them to do so.

What is an everyday debit transaction?

Generally, an everyday debit transaction is when you use your debit card or card number to make a purchase at a gas station, store, restaurant, or other merchant, or by phone or the Internet. Using your debit card to authorize automatic payment of a recurring bill, such as your utility bill, is not considered an everyday debit card transaction.