

STATE OF NEW YORK

5016

2023-2024 Regular Sessions

IN SENATE

February 21, 2023

Introduced by Sen. SANDERS -- read twice and ordered printed, and when printed to be committed to the Committee on Banks

AN ACT to amend the banking law, in relation to creating the consumer overdraft protection act

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

1 Section 1. The banking law is amended by adding a new article 2-A to
2 read as follows:

ARTICLE 2-A

CONSUMER OVERDRAFT PROTECTION ACT

Section 60. Legislative intent.

61. Definitions.

62. Restrictions on overdraft protection programs or services.

63. Restrictions on advertising of overdraft protection programs or services.

10 § 60. Legislative intent. The legislature hereby finds that many New
11 York state consumers are not informed of overdraft protection and/or
12 fees until after such event has taken place. It is the legislature's
13 intent to ensure that consumers are informed of their options in regard
14 to overdraft protection prior to incurring fees by establishing appro-
15 priate protections for such consumers.

16 § 61. Definitions. For purposes of this article, the following terms
17 shall have the following meanings:

18 1. "Overdraft protection fee" means any fee or charge imposed in
19 connection with any account on which checks or other debits are paid by
20 the institution in which such account is held even though there are
21 insufficient funds in the account to cover such checks or other debits,
22 unless such fee or charge:

23 (a) is imposed on an incidental basis as a customer accommodation and
24 not more than three such overdraft fees are imposed during any calendar
25 year;

EXPLANATION--Matter in italics (underscored) is new; matter in brackets
[-] is old law to be omitted.

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1 (b) is imposed in connection with an extension of credit through an
2 overdraft line of credit through an overdraft line or credit program
3 where such fee or charge was considered a finance charge under this
4 article, as in effect prior to the enactment of this article; or

5 (c) has been disclosed in connection with a program under which the
6 overdraft is covered by funds transferred from another deposit, share,
7 or other asset account.

8 2. "Check" means a draft, payable on demand and drawn on or payable
9 through or at an office of a bank, whether or not negotiable, that is
10 handled for forward collection or return, including a substitute check
11 and a traveler's check and does not include a noncash item or an item
12 payable in a medium other than United States dollars.

13 3. "Other debits" means withdrawals from an account by the consumer
14 through an automated teller machine and electronic fund transfers from
15 an account that are initiated or authorized by the consumer.

16 4. "Electronic fund transfer" means any transfer of funds, other than
17 a transaction originated by check, draft, or similar paper instrument,
18 which is initiated through an electronic terminal, telephonic instru-
19 ment, or computer or magnetic tape so as to order, instruct, or author-
20 ize a financial institution to debit or credit an account. Such term
21 includes, but is not limited to, point-of-sale transfers, automated
22 teller machine transactions, direct deposits or withdrawals of funds,
23 and transfers initiated by telephone. Such term does not include:

24 (a) any check guarantee or authorization service which does not
25 directly result in a debit or credit to a customer's account;

26 (b) any transfer of funds, other than those processed by automated
27 clearinghouse, made by a financial institution on behalf of a consumer
28 by means of a service that transfers funds at either Federal Reserve
29 banks or other depository institutions which are not designated primari-
30 ly to transfer funds on behalf of a consumer;

31 (c) any transaction the primary purpose of which is the purchase or
32 sale of securities or commodities through a broker-dealer registered
33 with or regulated by the Securities and Exchange Commission;

34 (d) any automatic transfer from a savings account to a demand deposit
35 account pursuant to an agreement between a consumer and a financial
36 institution for the purpose of covering an overdraft or maintaining an
37 agreed upon minimum balance in the consumer's demand deposit account; or

38 (e) any transfer of funds which is initiated by a telephone conversa-
39 tion between a consumer and an officer or employee of a financial insti-
40 tution which is not pursuant to a prearranged plan and under which peri-
41 odic or recurring transfers are not contemplated; as determined under
42 regulation of the Board of Governors of the Federal Reserve System.

43 5. "Account" means any account intended for use by and generally used
44 by a consumer primarily for personal, family, or household purposes into
45 which the consumer deposits funds.

46 6. "Transaction account" means a deposit or account on which the depo-
47 sitor or account holder is permitted to make withdrawals by negotiable
48 or transferable instrument, payment orders of withdrawal, telephone
49 transfers, or other similar items for the purpose of making payments or
50 transfers to third persons or others. Such term includes demand depos-
51 its, negotiable order of withdrawal accounts, saving deposits subject to
52 automatic transfers, and share draft accounts.

53 § 62. Restrictions on overdraft protection programs or services. 1.
54 General provisions. In the case of any transaction account of a consumer
55 at any institution, no overdraft protection fee may be imposed on such
56 account for any extension of funds by the institution to cover any check

1 or other debit for which there are insufficient funds in the consumer's
2 account to pay such check or other debit, unless:

3 (a) the consumer has provided specific written consent to any program
4 or service that provides for charging such fees in connection with any
5 such extension of funds;

6 (b) such fee is imposed pursuant to the terms of a written agreement
7 with the consumer which discloses, in a clear and conspicuous manner:

8 (i) the amount of any fee imposed in connection with paying an over-
9 draft;

10 (ii) any applicable disclosure required by this article in connection
11 with such extension of credit;

12 (iii) the categories of transaction for which a fee for payment of an
13 overdraft may be imposed, including whether an overdraft created by
14 withdrawals at automated teller machines or other electronic fund trans-
15 fers will be covered and a fee imposed;

16 (iv) the time period by which the consumer must repay or cover any
17 extension of credit in the form of payment of an overdraft;

18 (v) the circumstances under which the institution in which an account
19 is held will not pay an overdraft; and

20 (vi) other information required to be disclosed by law;

21 (c) such fee is separately and conspicuously disclosed, each time the
22 fee is imposed, in any periodic statement provided to the consumer with
23 respect to such account and is included in the calculation of the annual
24 percentage rate as required by state and federal law;

25 (d) In no case shall overdraft fees over the course of one year exceed
26 one hundred dollars, including any additional charges and/or fees
27 imposed pursuant to this section;

28 (e) Every institution shall establish an automatic bounce system for
29 any amount exceeding the limit prescribed by paragraph (d) of this
30 subdivision.

31 2. Monthly fee. Any institution may require a fee of one dollar for
32 any checking account for the maintenance of an automatic bounce system.
33 Such fee must be disclosed pursuant to subdivision one of this section.

34 3. Clarification relating to overdraft fees. In case of any trans-
35 action account of a consumer at any institution, the prohibition against
36 an overdraft protection fee under subdivision one of this section shall
37 apply regardless of whether the amount of such fee is the same as, or
38 less than, any fee imposed by the institution with respect to such
39 account for a check or other debit that is returned unpaid.

40 4. Prohibition on misrepresentation. It shall be a violation of this
41 article if any institution:

42 (a) will not extend funds under specific circumstance to cover an
43 overdraft in any transaction account of a consumer at the institution;
44 or

45 (b) reserves the right to extend funds to pay any such overdraft on a
46 discretionary basis, any representation by such institution that the
47 institution will extend credit to cover all overdrafts on such account.

48 § 63. Restrictions on advertising of overdraft protection programs or
49 services. 1. General provisions. In the case of an institution that
50 maintains transaction accounts for consumers and offers a program or
51 service under which the institution pays any overdraft on the account in
52 exchange for payment of an overdraft protection fee, the institution may
53 not make any of the following representations or statements with respect
54 to such program or service in any advertisement or promotion:

55 (a) Any representation or statement describing a transaction account
56 as free or no cost if the account includes, or is promoted as including,

1 overdraft protection services that involve the payment of overdraft
2 protection fees.

3 (b) Any representation or statement encouraging the use of the account
4 as a service to meet short-term credit needs or to obtain advantages on
5 a consumer's next payment of salary, wages, benefits, or other income.

6 (c) Any representation or statement that the financial institution
7 will honor all checks or other debits presented against the account, if
8 the institution retains discretion at any time not to honor any check or
9 other debit presented.

10 2. Regulations. The Board of Governors of the Federal Reserve System
11 shall prescribe regulations implementing the restriction set forth in
12 subdivision one of this section pursuant to the authority of the board
13 under section 18(f) of the Federal Trade Commission Act, and may, by
14 regulation or order, restrict such additional acts or practices that the
15 board finds to be unfair or deceptive in connection with the offering,
16 operation, and advertising of overdraft protection programs and
17 services.

18 § 2. This act shall take effect on the one hundred eightieth day after
19 it shall have become a law.