

Subject: Preparations for Reg E

Issue Date: December 2009

As you know, an amendment to Reg E was announced in early November with a mandatory compliance date of July 1, 2010. Now is the time to begin your preparations to address these new changes. Before we examine the amendment in more detail, let us put the discussion in “Pinnacle Perspective.”

This new rule goes a long way toward addressing areas where there has been confusion and negative press, primarily with non-disclosed overdraft programs. The regulation will require some program and technology changes, but in the long run, it will protect financial institutions from false claims and will provide consumers with continued options and the ability to make informed decisions about the products and services they are offered.

Given Pinnacle’s transparent approach to overdraft protection, our clients are optimally positioned to implement these changes and to fully comply with this amendment. However, *all* programs will need to make some changes to existing systems, documentation and customer communications in order to ensure continued compliance. To that end, we begin the process by providing answers to the questions we are already receiving from financial institutions across the country:

Q. What is the future of Pinnacle’s Overdraft Protection Products?

A. The future of overdraft programs is assured. FDIC and Federal Reserve research shows that most consumers want overdraft services to cover important bills, such as rent, utilities and car payments.

This research is well validated by Pinnacle’s experience through years of implementing successful, disclosed, automated overdraft protection programs:

- Consumers get a simple, complete explanation of how the program works, what it costs, if and when they’ve used it, and how they can opt-out of the service if they don’t want it.
- Financial institutions receive the benefits of providing a service that consumers want—including reasonable fees for the service.

Q. Will consumers continue to pay for this service?

A. In 13 years of working with more than 900 financial institutions nationwide, it is our collective experience that consumers are willing to pay for this service of covering overdrafts, regardless of the type of transaction (checks, ACH, ATM, point of sale)—given the low percentage of account holders who opt-out of the program when given the opportunity.

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Q. What are the requirements of the Reg E amendment?

- A.** The Reg E amendment mandates the penalty-free, opt-out approach for traditional overdrafts by check, ACH or recurring debit card. This is an approach that Pinnacle has long championed and confirms our best practice of fully disclosing program coverage, application and options to consumers.

Additionally, Reg E prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine (ATM) and one-time debit card transactions, unless a consumer consents in advance, or “opts-in,” to the overdraft service for those types of transactions.

Furthermore, the rule prohibits discriminating against individuals who *do not* opt-in for one-time debit and ATM coverage when considering the payment of checks, ACH items or recurring debits, *if* the financial institution’s program normally pays these items. In other words, the opt-in is no longer for *all* items or *no* items.

Visit the Pinnacle Compliance Center at compliance.pinnstrat.com for highlights of the final ruling, a video with a topline explanation and a link to download the complete Reg E amendment.

Q. Do all account holders have to opt-in by July 1, 2010?

- A.** Beginning on July 1, 2010, all new account holders must opt-in to the overdraft service for the types of transactions noted above. However, you have until August 15, 2010 to opt-in your existing account holders. After August 15, no overdraft or NSF fees may be charged for any ATM item or one-time debit item that causes or results in an overdraft if the customer has not opted-in for the service on that account.

Q. What is Pinnacle doing to accommodate the new restrictions?

- A.** Our experts are working with core processors and switch vendors on the solutions to help you address these changes required in order to comply with the Reg E amendment. The Pinnacle Opt-In Total Solution,SM a “turnkey” program for financial institutions, will be available in early 2010.

We keep you up-to-date with insights, guidance and advice on regulatory compliance on the Pinnacle Compliance Center at compliance.pinnstrat.com. This website has been especially designed to provide easy access to the information you need to stay ahead of the regulatory curve.

Q. Have you created any opt-in forms for customer distribution?

- A.** The rule requires the use of a restrictive model opt-in form that institutions need to exercise caution when modifying. As the market leader in overdraft protection programs, and given our long history and expertise in regulatory compliance, Pinnacle is adept at understanding the rules and can assist institutions with customization of the form. The Pinnacle Opt-In Total Solution,SM available in early 2010, includes planning, training and customer communication guidance and tools.

The Pinnacle Perspective is built on a foundation of knowledge, experience and leadership. For over 13 years Pinnacle has worked with more than 900 community banks and credit unions nationwide, providing products and services that are consumer-focused, fully disclosed and 100% compliant. With a compliance team that includes veterans of both the FDIC and the Federal Reserve, we are able to deliver unparalleled regulatory expertise and guidance.