

Overdraft Privilege: The Next Generation in Customer Service

By Bill Strunk

When properly managed, overdraft services can be a win-win product for customers and for banks. The customer who is occasionally over-extended knows that his or her overdraft will be covered and one's reputation will be protected. And the bank or savings association can earn additional income from the service it provides.



Many bankers have already acknowledged that customers place a high value on the likelihood that their occasional and inadvertent overdrafts will be paid. These bankers have profitably incorporated an overdraft service into their portfolio of services.

Twenty percent of all banks operate these programs and benefit from strong gains in customer service perceptions and a positive growth in non-interest income. Several money center and regional banks have operated sophisticated discretionary overdraft systems for many years.

Other banks, according to several major bank consultants, are actively considering overdraft programs. Sources at Strunk & Associates, L.P., find that many of the nation's bankers are evaluating the opportu-

nity to bring the advantages of this service to their customers.

There are other bankers who will not offer an overdraft service because they do not want to encourage their customers to write checks that are larger than their deposits, or withdraw more from an ATM than the customer has on hand.

The industry has not always thought of paying customer overdrafts as a marketable "service." Our approach has historically been an operational one, not a conscious marketing initiative. Virtually every bank has a process, however informal, for making decisions about which checks get paid or returned.

For the average consumer household, the financial and other penalties created when a bank returns a check can be one of the most damaging actions we can impose. Contrast that with the service of paying that check, thereby saving the customer time, embarrassment and money. The outcome in that case can be dramatically different.

Many Americans, regardless of income levels, live paycheck-to-paycheck and can use a little "wiggle room" from time to time. Unfortunately, many customers still think that a "float" exists when it doesn't.

When necessary, customers much prefer that the bank pay their overdrawn checks rather than return them as insufficient. It typically is cheaper and better for the customer than bouncing the check, especially when the possible re-presentment fees, merchant fees, penalties, late fees, interest, inconvenience, stigma and embarrassment are considered.

Changing the approach to this decades-old system is much more than simply paying more small items into the overdraft. The degree of improvement varies significantly from bank to bank, and doing it well is not easy, and not necessarily intuitive for most bankers. Best results require a comprehensive program that includes:

1. Assessing the bank's customers and marketplace to design the best program for the bank;
2. Integrating the operations process and technology to ensure on-going efficiencies;
3. Establishing guidelines to communicate the program to the bank's staff, the bank's customers, and/or the bank's marketplace;
4. Monitoring customer usage, customer counseling and goodwill;
5. Creating management reporting and

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monitoring processes;

6. Developing ongoing risk management and collection; and

7. Establishing processes and procedures to ensure regulatory compliance.

Overdraft privilege services will, first and foremost, increase customer satisfaction and strengthen the banks' customer relationships. Secondly, as in any other product or service that delivers strong value, the provider will profit. Clients of Strunk & Associates have experienced non-interest income increases ranging from 50 percent to 400 percent.

Strunk has a performance history that typically doubles clients' consumer NSF/OD fee income levels. A well-designed, properly implemented and appropriately risk-managed process will result in better service to the customers, efficient operations delivery, regulatory compliance and improved non-interest income.

Overdraft privilege services have been

implemented by banks, savings associations and credit unions across the United States. Recently, the question has been raised again as to whether the fees associated with overdraft services are finance charges for the purposes of usury or disclosure purposes.

Over the years, when the banking agencies have been asked, they have held the position that these fees are not finance charges, if certain specified program conditions are met.

These services do not constitute extensions of credit by a creditor subject to Regulation Z because the overdraft fees imposed are not finance charges as defined by the regulation. Rather, these services involve nothing more than the discretionary payment of items that overdraw the customer's account and the imposition of overdraft charges that are contracted for in the account agreement executed upon the opening of the account.

Bankers who are not currently offering overdraft privilege services may want to consider putting a plan in place. Strunk sources report that these services are increasingly requested by customers. **5**

The views expressed in this article are those of the author and not necessarily the views of America's Community Bankers.

Bill Strunk is founder, chairman and chief executive officer of Strunk & Associates, L.P. Strunk & Associates, the original innovator of this service, is a business solutions partner of ACB Business Partners Inc., and has been focused on Overdraft PrivilegeSM for nearly a decade.

Strunk believes a well-designed and properly implemented overdraft privilege service will deliver better customer service and improved non-interest income for the bank.

Recommendations from America's Community Bankers

Community bankers are on the cutting edge of financial literacy, and are the one source that many customers look to for the answers on fundamental questions about their financial future. Bankers have a special responsibility in offering overdraft programs. Accordingly, ACB recommends that institutions that choose to offer overdraft programs should observe these criteria:

- Evaluate an overdraft program carefully so that customers are protected but not encouraged to spend more than they earn.
- Vet the program throughout the bank so that every office is aware of its implications, especially offices responsible for compliance, marketing and business affairs. Overdraft programs cross many areas of responsibility.
- Make sure your fee structures are fully disclosed and easily comprehended.
- Be certain that all disclosures are simply written, appropriately developed and are readily understood by customers. Regulators can be expected to evaluate your disclosure notices with great care.
- Provide customers a clear choice so they can make an independent decision of whether to request overdraft protection, what it means and what it costs.
- Provide your customers with notices at least annually of how your overdraft program operates.
- Allow customers to exit the overdraft program at their option.
- If your institution allows customers to overdraw by an ATM transaction, if possible ensure that your bank's patrons know they are overdrawing their account and what fee will be imposed.
- Establish a procedure for counseling customers who routinely overdraw their account and set parameters for closing accounts when this product is being abused.
- Make financial literacy and financial education a corporate goal. Educate your customers on the advantages of keeping their accounts in balance, and of saving and investing more than they are spending.