The Overdraft Fee Controversy: Did the Consumer Have the *Right* Balance in Mind?

WRITTEN BY:
RANDY KARNES
CEO, CU*ANSWERS

FOR:
CREDITUNIONS.COM
A SPONSORED CONTENT ARTICLE

FIRST PUBLISHED:
OCTOBER 2009

For all the hoopla in the press, the legislative grandstanding for consumer groups, and the finger pointing at financial institutions about the abuses of overdraft processing services, it still comes down to one simple idea. The consumer spent money, accepted services, or promised to pay for something *without the funds available to do so*.

Today's consumer has turned the tables on the process. It started as a verification system for the retailer and financial institution to make sure the card was valid, the consumer was legit, and that funds were currently available. But it's morphed into a crutch for the consumer who assumes, "If my financial institution implies I have the money by not stopping me, *I can spend it*." Consumers take for granted that you know, at any moment, how much money they really have, and that you'll make the decision for them accordingly. We have shifted from the personal responsibility of knowing what's in your check register to the expectation of the system knowing your available balance on the fly, electronically.

In the worst case, the system—meaning the network (Visa or MasterCard) and the retailer—is playing along by saying, "We are not even going to *pretend* anymore that you need to have the money." They do this by not processing small dollar verifications, and by not requiring a consumer to sign for transactions under $25.00 (rumor has it this is on its way to $50.00 or more).

Yesterday's concerns for validation have been overrun by the need for speed and convenience, coupled with a seeming lack of respect for the last person in the transaction chain. The retailer got paid, the network got paid, and the consumer got the goods. So the financial institution is the bad guy for saying your balance is negative—now pay the consequences of having us either cover the transaction (for a small fee), or label it as NSF and mar your reputation.

Of course there are some dirty little nuances here about increasing fee income for financial institutions. But I am not sure Consumer Groups understand that consumers won't really win if overdraft fees just turn into NSF fees and ruined reputations. It's not that easy.

So who is the real culprit here? *Progress!* So we all should just get over it and get ready for the new day!

CU*ANSWERS
A Credit Union Service Organization

6000 28th Street SE
Grand Rapids, MI 49546
Phone 800.327.3478
Fax 616.285.5735
www.cuanswers.com

Payment systems have changed. Consumers have changed. Retailers have changed. And even the mood about personal responsibility has changed. Credit unions have to evolve as well, and get ready for a real-time emphasis on serving member transactions in a networked world. Here are some steps:

1. Change the paradigm for lending and push for new rules about Micro Financing and how small negative balance servicing is viewed by consumers and regulators. This is lending; it is valuable to consumers, and important for the flow of convenient transactions. Fees should be fair, but not held up against long-term, significant-balance loans for calculating APR and other Fair Lending Practices. Change the stigma, and make Payday Lending and Overdraft Processing respected services. Consumers want and need them in many circumstances.
2. Be more proactive in presenting real-time data to card networks, retailers, and consumers. *Every credit union needs to be online* with their debit and ATM vendors. Reduce the need for offline estimated balances. Shift the focus to presenting *calculated available balances* as the norm.
3. Push themselves and the networks to have better automation and standards for hold processing so that *available balance concepts* are more transparent and understood by the electronic consumer when using plastics to settle with retailers and draw funds from ATMs.
4. Develop electronic alerts for members. Encourage members to use these real-time channels for accessing available balances, and help them understand new tools for being in the know and responsible for their own funds. Every credit union needs to get active on delivering online banking, cell phone banking, and text banking so that members can trust the information *at the point of the transaction*.
5. Our industry needs to push out new tools for balancing and forecasting available balance for members. Interactive tools where the member can tell us more about what they are doing (writing checks, scheduling ACH, anticipating automated withdrawals, etc.). What kinds of calculators could credit unions present to tomorrow's members, who may never even learn to use a written check register?

In the end, all of the angst about the perceived abuses of consumers may be more about a changing set of rules, rather than the will of any single party to take advantage. It's about the fact that we are on to a new economic environment of electronic commerce where the tools and standards for usage are changing, and the pain in getting everyone there is real. When the speed of transactions doubles or triples and eventually goes off the scale, the trend will be more negative balances and more troubled transaction issues. *Keeping up* is the problem for everyone, and having a playing field with the best tools for keeping up is what consumers and retailers (including banks/credit unions) need. Those who do not adjust will fall behind.

As an industry challenged financially, it may seem impossible to bring all credit unions up to speed, to invest in more technology, to push our networks harder to improve, now of all times. But that is exactly what we must do if we are to survive. Invest in where the members have already gone: to the network.