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Re-emerging overdraft programs must focus on service, responsibility



The conversation about overdrafts has been somewhat non-existent the past several months as community banks and credit unions patiently wait for impending compliance directives, changes within the CFPB and an uptick in the economy. It seems now—with positive movement regarding all these concerns—it's time to start talking about the opportunity they represent and the best way to seize it.

[CUES recently reported](#) that “with The [Financial Choice Act](#) likely to pass Congress, compliance on overdrafts appears headed for less restriction.” This assertion is based on

the fact that part of the proposed Financial Choice Act dismantles key parts of Dodd-Frank, which created the Consumer Financial Protection Bureau (CFPB), whose role will be redefined under a new name. The act—among other improvements—“removes the board’s opaque and ill-defined unfair, deceptive, or abusive acts and Practices (UDAAP) authority,” while still emphasizing consumer protection. The bill passed in the House on June 8 and goes to the Senate next for consideration.

In the meantime, before The Financial Choice Act is adopted, CFPB director Richard Cordray has stated, “We are not proposing any regulatory amendments at this time” and with less than a year left in his term (and the possibilities that President Trump may oust him earlier or Cordray may run for Governor of Ohio and be required to step down), the likelihood of any new legislation may indeed be dubious.

This movement toward less restrictive regulation should be encouraging to financial institutions that seek to provide overdraft protection for consumers who choose—and can afford—to take advantage of it. Indeed, trends suggest that use of the service is on the rise. Research firm Moebs recently reported that the marketplace is poised to rebound and, when it does, consumers will “begin spending more, saving less and accessing overdraft privilege more often.” When this happens, the firm projects overdraft revenue will rise to an historic high of \$40 billion.

What is the best way for financial institutions to take advantage of the new overdraft landscape? Focus on service to the consumer (and risk-management for the institution) by implementing customized and protective measures, including:

Set overdraft limits that align with the customer’s ability to repay—

Setting a fixed overdraft limit (for instance, paying all overdrafts up to \$500/day) for every consumer based solely on account type could result in certain accountholders receiving a limit higher than what they can afford. Likewise, accountholders who can afford a higher limit (based on a myriad of account data points, including specific deposit and overdraft activity and related balances) may be restricted from paying for necessary expenses when the fixed limit is not high enough to accommodate the purchase amount. When this happens, your institution runs the risk of losing this customer to a program that is more in tune with his financial needs and habits.

Produce communications that are personalized and tailored to each accountholder's situation—

Whether your financial institution relies on internal resources, core-generated communications or third-party software, personalized and dynamic messages improve engagement, maximize collections, retain account holders and help manage risk.

An overdraft technology platform that tracks multiple account data points can ensure your overdraft communications are not only branded to your institution (down to the branch manager's signature), but also contain completely relevant, custom messaging that coincide with activities, like:

- ATM/Debit Card Denial due to NSF
- Overdrawn Balances
- Days Overdrawn
- Accountholder Overdraft Repayment Capacity; and
- Other Changes in Account Activity?

The timing of overdraft communications and the method of delivery (i.e., call/email/letter/text) are also important to enhance service and manage risk. And obviously, your ability to identify frequent 'overdrafters' and provide counseling alternatives and repayment plans is crucial.

Adopt disclosures that clearly define the program and pricing—

[A recent article by compliance expert Temenos](#) suggests that choosing the right words in your overdraft disclosures is critical, even down to whether you refer to it as "privilege, protection, program, service or coverage." Currently, the CFPB is field testing four sample overdraft disclosure forms, which it released earlier this month. These "Know Before You Owe" forms attempt to make it easier for consumers to understand overdraft protection policies and procedures, especially with regard to debit card/ATM transactions. The outcome of these tests may be months away or more, but the more the consumer understands about your overdraft program, the better.

After all, studies have shown that the majority of 'overdrafters' (which is only a small percentage of accountholders) willingly use the service as a result of informed choice. Director Cordray acknowledged this fact on multiple occasions saying the CFPB is not

looking to do away with overdraft services. Instead, he hinted at only minor consumer-focused changes, including new, 'more transparent' disclosures and possible changes to posting order.

Seek an experienced overdraft service provider that provides a published set of best practices to ensure the most [responsible way](#) to take advantage of the re-emerging opportunity that overdrafts present.

To learn more about our overdraft privilege solutions, please contact BSG Financial Group at (866) 274-8900 or go to <http://www.BSGFinancial.com>.

