

From: Dani Lane
Subject: Electronic Fund Transfers

Comments:

First let me state that I have worked in the credit union movement for 30 years. I have had checking accounts even longer. I have been charged a fee for a bounced check, just as I have been charged a fine for speeding. On both occasions I accepted the responsibility, paid my penalty and used it as a lesson to get my act in order. So that's me.

I can tell you from first hand experience that our credit union offers a Courtesy Pay program and the income is good. It has helped our credit union and many others stay "in the black." When we open a checking account, we explain the three types of overdraft protection we offer.

The first is an automatic transfer from up to four accounts to cover checks, debits and ATM withdrawals and this option is free. I have only had two members turn this option down.

The second is an overdraft protection line of credit. It usually has a limit of \$300 and the interest rate is 15%. For most innocent mathematical errors, this is costs practically nothing. If any account is overdrawn to the maximum amount for 30 days, it costs the member \$3.70. We used to attach this to any checking account that had direct deposit until our credit union got the reputation that we were "giving away" \$300 with every checking account. We had a surge of new members with direct deposit who took the \$300 and disappeared, along with their direct deposit. Now we don't give that away. We run a credit report and members have to qualify for it just as they would any other loan.

(We exhaust these options before resorting to the third option.)

Finally, the third option is Courtesy Pay. I, personally, explain this thoroughly when I open a checking account. I tell the member that it can be their best friend or their worst nightmare. I tell them that if they are short of clearing the check for their mortgage, they will probably be delighted to pay our \$27 fee and have the check cleared. I also tell them that if they go to lunch at McDonalds that a \$5 lunch might end up costing them \$32. I tell them that they will have to manage their account responsibly for 60-90 days before we add Courtesy Pay to their account. After that time, we send them a brochure that explains the program and offer them an opt out.

Sometimes, even the initial disclosure and the subsequent mailed brochure are forgotten and a member will complain about being charged a fee when they would have preferred their debit card was declined. Then we reverse the fee, and opt them out of the program. Most of the time, the member looks at it like I do. it's a learning experience. They decide to remain in the program because someday, maybe, they're going to have car trouble or be at the grocery checkout with \$100 worth of groceries and they'll be just a little short and it will be worth the fee to be able to complete the transaction.

Are we making money off of those who can least afford it? I think so. The ones who are charged the most in fees never have any money in a savings to transfer and cover their debits. They don't qualify for an overdraft line of credit or they have one and it's always maxed out. They don't take advantage of offers to

help them balance their checkbook or budget. The transactions that they pay so dearly for are often to fast food, pizza, video rental, convenience stores and the like. They don't know how and don't want to learn to manage their money. (When we started Courtesy Pay, we learned that only 11% of our members balance their checkbook.)

So if legislation does come down that requires financial institutions to require an opt-in, these people, the ones who use Courtesy Pay the most, will opt-in. The alternative is that their accounts will be closed for repeated overdrafts. The aspect that dismays me is the burden of further regulation on small credit unions like ours that struggles to survive in a post 9-11 world where members embrace check cashing and payday advance stores, perhaps because they don't qualify for legitimate low interest rate loans.

And it should be dismaying to anyone, that the government has to legislate what is good for a consumer. Why not let the market dictate what products we offer and what we charge? My boss had an interesting comment on the abuse we "banks" visit upon the hapless consumer. He said, "They could really teach us all a lesson by simply balancing their checkbook and not spending money that they don't have." Seriously, the income stream would dry up and we'd have to be very competitive and creative to find ways to replace it.

This has been a long email, but let me close by saying that disclosure is extremely important. I believe that consumers should be given the opportunity to make an informed decision. But I also believe that most banks and credit unions do disclose the mechanics and cost of covering overdrafts already. I've been reading in these consumer-biased articles that banks won't let their customers opt out of overdraft protection programs, but I find that hard to believe. We already disclose the cost of using the service on consumers' statements. And most of all, consumers have the power to avoid the fees if they choose to. If their bank won't opt them out, they have the power to change financial institutions.

I know more about Courtesy Pay than the average consumer and I still choose to have it.

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