

Policy by horror story (Good stories needed)

“I took my in-laws out for a holiday brunch and put it on my debit card. Thank God my bank had overdraft protection, because I had forgotten to transfer in money to cover the meal!”

By Bill Streeeter, Editor-in-Chief, bstreeter@sbpub.com

One good anecdote is worth a hundred pages of reasoned testimony, but like a two-edged sword, stories can work for and against you. In the case of overdraft fees, the horror story has ruled in Congress so far. It's time to stop that.

The Federal Reserve just issued new rules guiding the application of overdraft protection plans, but Congress, not to be denied, has weighed in with its own proposals, some of which are far more onerous. This is a reprise of what happened earlier this year with credit cards.

The Fed rules proved to be workable. They address several practices that, frankly, needed addressing. A month or two earlier, several banks publicly announced similar adjustments to their programs. While welcome, had such steps been taken two years ago (or the practices never allowed to begin with—as, for example, arranging transactions in order of highest value to lowest) there would not be an overdraft problem facing the industry now. There would be no horror stories of someone getting hit with \$100+ in overdraft fees for buying coffee with a debit card. Consumers, of course, can avoid these fees by being more careful. But to take advantage of such lapses in order to maximize income is simply a recipe for disaster.

ABA President Ed Yingling addressed the broader point here in remarks at the association's Annual Meeting in October. “A community banker from Ohio,” he said, “told me of his frustration that the differentiation between traditional banking and the bad guys has been muddled by the small minority in our industry who offered products that took advantage of people.

“He's right,” Yingling continued. “When that happens, we all end up paying the price. In the future, when we see such unfairness, I believe we must address it and stop it.”

Somehow, the industry needs to find a way to deal with those sorts of situations.

But for now, the goal for the vast majority of banks that offer overdraft protection in a way that does not take advantage of customers—but in fact can assist them—is to convince Congress not to hobble this service out of existence. At another industry conference, during a session on preparing for the loss of noninterest income from curtailed overdraft programs, one banker in the audience, Belinda Cavazos, vice-president retail, Teche Federal Bank, New Iberia, La., asked the panel, “Why are we just accepting this?” Customers are not going to like the loss of overdraft protection, she said, adding, “How many of you are notifying your customers that overdraft protection may be going away?”

If enough good anecdotes surfaced—like the hypothetical one that opened this column—telling how overdraft protection saved someone a major problem, it could begin to dilute the impact of the horror stories and cause enough members of Congress to pause before enacting draconian measures.

If you have such anecdotes, pass them to Nessa Feddis, staff contact for ABA's Overdraft Task Force, at nfeddis@aba.com. For more on the subject, read "Pass the Aspirin," beginning on page 14.