BankThink CFPB Holds Banks to Double Standard on Deposit Discrepancies

By ***Lynn A. David***

Regulators recently went after Citizens Financial Group for failing to correct discrepancies between customers' deposit slips and the amount of money actually placed into their accounts. But the nature of the Consumer Financial Protection Bureau's quarrel with the bank suggests the agency maybe overreacting in its plans to take similar monetary action against other banks. It is clear the CFPB does not understand deposit practices within banking.

Citizens reportedly pocketed the extra cash when the sum written on a deposit slip was less than the amount customers deposited. The practice applied to discrepancies of less than $50 between January 2008 and September 2012, and to discrepancies of less than $25 between September 2012 and November 2013.

But it's worth noting that the Federal Reserve itself does not adjust most individual check differences of less than $25. The Fed's manual for bank services lays out its policy for banks to submit adjustment requests, "Do not submit adjustment requests for $25 or less unless the request is for an Entry in Error, Not Our Item or a Paid Item."

Why should there be a double standard between what the Federal Reserve establishes as policy and what banks can establish as policy? Here is an example of what happens in banks on a daily basis. A bank customer writes a check for $100 to pay a bill. However, the $100 check was incorrectly handled in the amount of $120 by the bank that receives the check from the payee. When the customer later reconciles her monthly checking account statement, she notices that an extra $20 was charged to her account. She brings the error to the bank's attention and receives a credit for $20. But the bank absorbs the loss, since it cannot request an adjustment of less than $25 from the Federal Reserve.

With online teller machines, most deposit errors by the customer are identified at the time of deposit. The adjustment is made while the customer is still present at the ATM.

It is common practice for most banks to let stand deposit errors of less than $1, $2 or possibly $5 made at ATMs and night deposit safes. It's not cost-effective to make these small adjustments, since they come at the expense of productivity. Banks would also have to pay an additional 49 cents to mail the customer a deposit adjustment notice.

If a customer later notices the small difference in their deposit, most banks will credit the customer for the adjustment without taking the time to research the difference.

My research indicates that on average, 50% of all deposit adjustments are in the customer's favor and 50% are in the banks favor. In addition, as much as 40% of all deposit errors not made in person are less than $2.00. But more customers report check and deposit errors that have a negative impact on the bank than report check and deposit errors that have a positive impact on the bank. Therefore the cumulative financial impact on a bank is normally somewhat negative for the bank and positive for the customer base. It seems that the CFPB is making an industry-wide decision based on limited operational knowledge of banking. The Fed's policy of not adjusting check discrepancies of less than $25 has been in place for many years. Banks should be permitted to establish similar deposit adjustment limits without fearing regulatory sanctions.