

BankThink House Overdraft Bill Will Hurt Consumers

By Lynn A. David

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The Overdraft Protection Act, recently introduced by Rep. Carolyn Maloney (D-NY) and 45 other House lawmakers, shows how far removed congressional representatives are from the consumers they claim to represent.

In a recent press release, Rep. Maloney stated “The legislation introduced today is a common sense bill which all members of Congress should embrace. It is in the best tradition of true consumer protection.”

But, should the bill pass, Maloney and her colleagues would be penalizing the very customers they are trying to protect. Limiting the number of overdraft fees financial institutions can charge an individual at one per month and six per year, as the bill seeks to do, could cause some consumers to miss a monthly mortgage or auto loan payment, have their utilities turned off or have their insurance cancelled. Some of these occurrences could also negatively affect their overall credit standing.

Here is the true reality of the situation. This is 2013. There has never been a time in our history when consumers have had such easy access to their financial position at their financial institution. Account information can be accessed via telephones, ATMs, computers and other handheld devices. With the information at their fingertips, consumers know whether they can use their debit card to pay for lunch at their favorite restaurant.

Consumers have also learned that, more often than not, the funds associated with a check will be deducted from their account the next business day. Those that use their financial institution's bill pay services have control over when they make their payments. When consumers authorize their insurance company and other businesses to automatically debit their checking account, they sign an agreement acknowledging their responsibility to have funds available to cover the payment. If we want to get technical about the situation, when a consumer writes a check with the knowledge that adequate funds are not in their account, they are committing a criminal act.

Consumers are in control of their financial situation. However, when consumers decide not to act in their own best interests, most financial institutions will cover their shortages by paying the overdrafts. This permits consumers to purchase food, pay bills and maintain a respectable credit rating. Financial institutions write off millions of dollars a year in charged off checking accounts to help customers cover their daily needs. They deserve to be compensated for this service.

If the Overdraft Protection Act passes into law, banks will have no choice but to refuse to pay as many checks and ACH items into overdraft. These items will be returned to grocery stores, restaurants, landlords, mortgage companies, utilities, insurance companies and merchants. These businesses could charge consumers more for each returned payment that is processed than the customer would have paid for the bank to cover the overdraft. Banks can also charge a fee for a bounced check, which means the consumer may pay two fees without the benefit of having their bill covered.

In worst case scenarios, these businesses will refuse to let consumers purchase groceries, evict individuals from their homes, turn off utilities and cancel insurance. Some of these businesses will also provide negative information to credit bureaus, which will further limit the consumer's ability to access credit in the future.

Perhaps Rep. Maloney and her 45 co-sponsors should take these realities to the consumers in their respective districts and states to determine what these people really want before they pursue their currently shortsighted endeavor.

Lynn A. David is president of Community Bank Consulting Services and has been a consultant to financial institutions for over 27 years.