

Overdraft Protection

By: Charles O'Brien, President and CEO of South Adams Savings Bank

During this past holiday season you may have mistakenly overdrawn your account. If so, you were not alone. The holiday shopping season is a time of frequent spending, leaving more opportunity for human error. The added expense of unexpected fees and penalties is inconvenient and costly. The New Year is a great time to take control of your finances with preventative overdraft protection tools. There are three main tools that are commonly offered by most banks. Use these tools in combination with careful management of your account and you can avoid the embarrassment and inconvenience of denied purchases and dishonored checks.

Overview of Overdraft

If you spend more than you have in your account, your bank has the option to deny the transaction. Furthermore, your bank will likely charge you a fee for each check, ATM or debit card transaction you initiate in excess of the amount of money in your account.

In addition, the merchant who was expecting to receive payment from you can charge you fees after the bank denied payment due to insufficient or uncollected funds in your account. A chain reaction of fees can result. In some cases, you will continue to be charged additional daily fees until you are able to deposit the necessary funds and bring your account to a positive balance.

Overdraft Protection Planning Tools

Many consumers overdraw their account only occasionally. However, it can become very expensive very quickly for those who are frequently overdrawn, not to mention the embarrassment that often results from bouncing a check. Using preventative overdraft protection tools combined with careful management can help.

Overdraft Savings Account -

Many banks allow customers to use their savings account balance as a backup to their checking account by automatically transferring funds from the savings account to cover an overdraft in the checking account. Of course, this service is limited by the amount of funds in the savings account, and there is often a transaction fee that occurs with each transfer. However, costly penalty fees and the inconvenience of insufficient funds can be avoided in many cases.

Overdraft Line of Credit -

Many banks also offer a line of credit that in effect lends you the money to cover the checking account overdraft. As with any loan, it will be necessary for you to fill out an application and go through the credit approval process. Although an overdraft line of credit can help avoid returned item fees related to insufficient funds, there are finance charges on amounts you have borrowed against the line, and periodic payments are required. Some banks may also charge an annual fee for this program, even if you don't use it.

Courtesy Overdraft Protection -

Under this type of overdraft protection the bank has the option of paying any overdraft that occurs in your account. The bank will charge you a fee to do so, and you will have to make a deposit sufficient to bring your account back to a positive balance. Courtesy overdraft payment can be a great tool for those who occasionally make a mistake that causes an overdraft. However, not all banks offer this service.

Additional Resources

The Federal Reserve Board offers some helpful consumer information on overdraft prevention at their website, <http://www.federalreserve.gov/pubs/bounce/>. Here are some of their tips:

- Keep track of how much money you have in your checking account by keeping your account register up-to-date.
- Record all checks when you write them and other transactions when you make them. And don't forget to subtract any fees.
- Pay special attention to your electronic transactions. Record your ATM withdrawals and fees, debit card purchases, and online payments.
- Don't forget about automatic bill payments you may have set up for utilities, insurance, or loan payments.
- Keep an eye on your account balance. Remember that some checks and automatic payments may not have cleared yet.
- Review your account statements each month. Between statements, you can find out which payments have cleared and check your balance by calling your bank or by checking online or at an ATM. Be sure to find out the actual amount in your account-your account balance not including any funds available to you through "courtesy overdraft-protection," or "bounce coverage," plans.

Summary

Many consumers are still reflecting upon their spending habits from the previous year, as holiday debt lingers. If you find yourself in this situation, start proactively managing your account and planning ahead. Most of all, avoid becoming overdrawn, by maintaining a running balance of your checking account. Find helpful resources from credible sources such as the Federal Reserve Board website. Also, consider visiting with a representative from your bank who can assist you in your financial planning needs as they relate to overdraft protection and careful management of your accounts.