



Consumer Tips May 2011: Overdraft Protection Programs

Good checking account management means understanding your options, making informed transaction choices, and knowing your account balance. The best account management tool available has been around for centuries. It is balancing your checkbook. Many people don't take advantage of this low-tech marvel.

Of course, in the day and age of dozens of swipes of the debit card every month, balancing a checkbook isn't as easy as it was back in the days when a person would write a couple of dozen checks and grab cash periodically at the ATM every month. The number of transactions has exploded. For that reason, many people rely on overdraft protection to save them from accidental and occasional overdrafts.

There are several options for overdraft protection. Not all banks offer all of them, so you may need to shop around to find the protection that suits your needs:

Automated overdraft protection. When an item is presented to your bank and your account doesn't have enough money to pay the item, the bank pays the item for you, rather than returning it to the person, business, utility, or merchant the item is paid to. The bank charges a fee every time an item causes your account to overdraft and typically charges for every item it pays until you bring your account back to a positive balance. Most automated programs have a dollar limit that they will pay into overdraft. Even though this is automated, banks retain discretion whether to pay items.

Ad-hoc overdraft protection. Instead of automated programs, some banks have programs where a bank employee looks at accounts that are overdrafted and determines whether to pay or return the items. The decision is most often based on creditworthiness.

Hybrid overdraft protection. Some banks have automated programs that become ad-hoc once they reach a certain dollar limit. When an item is presented to the bank that would take your account negative and beyond the automated program's dollar limit, a bank employee looks at your account and your creditworthiness to determine whether to pay the item.

Third party overdraft protection. Some banks have third party overdraft protection services administer their overdraft protection programs. Generally, these programs are automated, you pay a fee for each item paid into overdraft, and (in states where it is not prohibited) you pay a daily fee until your account is returned to a positive balance.

Linked accounts. A checking account can be linked to another account so that when your checking account is overdrawn, funds are transferred from your other account to cover the overdraft. More often than not, the linked account is a savings account, but your checking account can be linked to another checking account or a credit card account. If your checking account is linked to a savings account, current federal rules restrict the number of transfers to six per month. There is usually a small fee per transfer.

Line of credit. If you are creditworthy, you might qualify for a line of credit to cover overdrafts. A line of credit is a type of loan that pays overdrafts up to a certain dollar limit. As with any other loan, you must complete an application and qualify for the loan. There is usually a small fee associated with each overdraft and you will pay interest on the outstanding balance of the loan.

Because of a recent federal law, if you wish to have your ATM and debit card transactions covered by overdraft protection, you will need to affirmatively opt in to your bank's overdraft protection program. You should have received an opt-in form last year. If you wanted overdraft protection for these items, but didn't sign and return that form, contact your bank and ask how you can take advantage of overdraft protection for ATM and debit card transactions.

For those of us who remember the old days, having this protection sure beats having your bank charge a non-sufficient funds fee, returning the item to the merchant, the merchant charging you a bounced check fee, getting turned over to a collection agency, and possibly being referred to the county attorney for a hot check charge.

This information is provided with the understanding that the association is not engaged in rendering specific legal, accounting, or other professional services. If specific expert assistance is required, the services of a competent, professional person should be sought.

Provided as a public service by the Pennsylvania Association of Community Bankers.