



# Creditorial

ISSUES, INSIGHT, INFLUENCE

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GEORGIA CREDIT UNION  
*Affiliates*

## Courtesy Pay

For many years, most consumers, at one time or another, have found themselves in the unfortunate position of overdrawing their checking accounts. Credit union members are no exception.

Overdrafts can occur for a number of reasons, for example, an error in record keeping by the member, the member fails to deposit additional funds before the check clears, the member simply spends more money than is available in his/her account, or a previously deposited check is returned.

Whenever a financial institution offers check services to a consumer, the financial institution assumes the consumer will not overdraw the account. To discourage this type of unwise financial practice, as well as to cover the increased cost of handling an overdrawn item, the financial institution imposes a "non sufficient funds" or "NSF" fee on the consumer. According to Bankrate.com, over the past few years this NSF fee has been on the rise – up 20% from five years ago.

Over the past few years there have been some attempts at the federal legislative level and in a number of different state legislatures to dramatically change the way overdraft protection programs can be offered. In Georgia, there have been several occasions when this issue has been raised by individual legislators as an area of concern about abuses.

On the heels of payday lending being legislated out of existence by the Georgia legislature in 2006, this item has continued to be a hot topic to those legislators who draw a direct comparison between these programs and the outlawed payday lending programs. However, there are fundamental reasons why this is a false argument.

First and foremost, every credit union has a limit on the amount of time consumers can leave their account in a negative balance that results in item after item being paid and charged by the courtesy pay program. The vast majority of Georgia credit unions will not allow a member to continue to have access to a courtesy pay program for more than one statement cycle. This policy eliminates the possibility of monthly rollover balances to continue to escalate over a long period of time.

Another factor in the program is that a credit union member is not amassing charges higher than they would have experienced through having bounced checks. In fact, because the merchant charge for receiving an item back unpaid is avoided, the consumer is being charged less than what they would have been charged if the item had been "bounced."

Credit unions strongly support the ability to offer bounce privilege plans as a means to help their members resolve short-term overdraft situations.

Credit unions will work with key policymakers and regulators to ensure that they understand the benefits that credit union bounce privilege plans provide for members, consistent with the role of credit unions as not-for-profit, consumer-owned financial institutions. Courtesy Pay programs, when offered as a valuable alternative to bouncing checks, are fully consistent with the philosophy and principles unique to the credit union system.

**An estimated \$8 million in courtesy pay fees were paid by credit union members in 2007.**

**Approximately 314,000 items were covered for credit union members under courtesy pay in 2007.**

**Without courtesy pay, the cost for these NSF items could have been over \$22 million.**