



# Creditorial

ISSUES, INSIGHT, INFLUENCE

FEBRUARY 2008

## Managing Bounced Check Fees

GEORGIA CREDIT UNION  
*Affiliates*

Overdraft and bounced check fees can wreak havoc on an individual's financial standing. Managing one's account is the best way to avoid these fees, but sometimes mistakes happen.

Many credit unions offer "bounce coverage" or "overdraft protection" plans so that a members' checks do not bounce and ATM and debit card transactions go through. While the members using this program will still have a cost for writing a check on uncollected funds, which will hopefully discourage this practice, they will be protected from the merchant's bad check fees, any re-resentation fees and any additional embarrassment associated with passing a bad check.

A few ways to help avoid bounced check fees include:

- Understand how your credit union handles bounced checks
- Balance your checkbook regularly
- Don't forget about ATM withdrawals, monthly account fees, debit card purchases and automatic bill payments
- Give deposits time to clear
- Apply for an overdraft protection plan

Georgia credit unions consistently charge the same per item fee that is charged for return items in their overdraft protection program.

This service actually results in fewer fees to the consumer because when the item is not returned, the consumer does not incur the charge by the merchant that they would have been charged if the check had been returned.

### Payment Priority

Find out what policy your credit union uses to pay checks. Georgia credit unions use one of the following ways to pay items in their courtesy pay programs:

- Smallest item paid first
- Items paid in random order
- Largest item paid first
- Items paid by order of presentment
- Items paid by check number

There are different philosophies about the order in which items should be paid. The Uniform Commercial Code (UCC), which governs many aspects of check processing, authorizes financial institutions to clear withdrawals in any order they select.

Some suggest that the largest check should be paid first, such as mortgages or insurance. However, a 1998 study by the Consumer Federation of America found that only 13% of consumers wanted their largest checks paid first.

Credit unions agree that consumers should be made aware of what policies are used at their financial institution for item payment priority.

By full disclosure to the consumer of what policy the credit union uses, the credit union is employing a best practices philosophy that is consumer friendly.

About 55% of Georgia credit unions pay the smallest item first out of available balances then out of the bounced check program.

Approximately 18% of Georgia credit unions use a random order method of paying items.

Around 14% of Georgia credit unions use the order of presentment method for paying items.

About 9% of credit unions pay items by the largest first.