

# Overdraft Tip Sheet

*Sandra McKinnon, M.S., former University of Missouri Extension Family Financial Education Specialist and Brenda Procter, M.S., state specialist, Personal Financial Planning, College of Human Environmental Sciences, University of Missouri Extension*

## Basics:

**Overdraft “protection”** is when a bank or credit union covers overdrafts on a checking or share draft account. If you use a check, debit card or ATM to spend or withdraw more money than you have in your account, the bank or credit union allows the transaction to go through, but they charge you a fee. This means you avoid bounced check fees, but you pay additional fees if your account stays overdrawn.

Banks should ask you before enrolling you in an overdraft protection program. Effective July 1, 2010 (for new bank accounts) and August 15, 2010 (for existing bank accounts), banks can no longer automatically enroll customers in overdraft protection plans for debit and ATM transactions. However, banks can still automatically charge fees for checks or automatic bill payments that overdraft an account, regardless of whether or not customers opt-in to the protection.

It is important to consider how much an overdraft feature could actually cost you. Consider possible alternatives to adding overdraft protection. Each time you write a check or use your bankcard after your account goes negative, the bank will charge you around \$30-\$40 per transaction (no matter how much you go over what you have in the account). This does not include the additional fees the bank may charge if your account stays negative for a long period of time.

You often can opt out of overdraft protection and ask for a less costly option.

**Linked Accounts** – If you frequently overdraw, consider opening a small savings account and asking the bank to take money out of it if you overdraw your checking account. A transfer fee is commonly the only fee – usually about \$5 (much less than the average \$34 overdraft protection fee). If you have a credit card, your bank may let you use it to cover overdrafts. In this case, any overdraft amount is treated as a cash advance, which can still be expensive depending on your interest rate and how long you take to pay it back, but usually not as expensive as an overdraft fee.

**Line of Credit** – People with a strong credit record can apply for another type of loan called a line of credit. The cost of a line of credit is the interest charged on any money advanced, and there may also be an annual fee. It is usually less expensive than overdraft protection.

Obviously, the best protection against overdraft fees is to not overdraw. If you need help keeping track of your checking account, ask your bank or credit union for assistance.

## Cautions:

Banks depend on these fees and some will run your daily transactions in the order that gets them the most

### Questions to ask your financial institution:

1. Do you automatically notify me if my balance drops below a certain level?
2. Do I have overdraft protection? If so, what kind is it?
3. What overdraft protection programs do you offer? What are the fees?
4. Who do I talk to if I have questions or problems in the future?
5. Do you report my overdraft protection activities to ChexSystems or another service?

overdraft fees possible (i.e., from largest to smallest). The quicker your account is overdrawn, the more times they can charge an overdraft protection fee. Avoid the habit of spending more than you have in your account, and ask your bank about other types of protection you could sign up for and how much they cost.

## **Regulated by:**

There are several types of financial institutions. They may be regulated by federal and/or state laws.

### **State contacts:**

If the bank or savings and loan is state-chartered, contact:

Missouri Division of Finance  
301 W. High St., Room 630, PO Box 716  
Jefferson City, MO 65102  
Phone: 573-751-3242, Fax: 573-751-9192  
E-Mail: [finance@dof.mo.gov](mailto:finance@dof.mo.gov)

If the credit union is state-chartered, contact:

Division of Credit Unions  
Harry S. Truman State Office Building, Room 720  
Jefferson City, MO 65102  
Phone: 573-751-3419, E-Mail: [cu@cu.mo.gov](mailto:cu@cu.mo.gov)

### **Federal contacts:**

If the bank is a member of the Federal Reserve System, contact:

Federal Reserve Consumer Help  
PO Box 1200, Minneapolis, MN 55480  
Phone: 1-888-851-1920, Fax: 1-877-888-2520  
E-Mail: [ConsumerHelp@FederalReserve.gov](mailto:ConsumerHelp@FederalReserve.gov)

If the bank is *not* a member of the Federal Reserve System, contact:

Federal Deposit Insurance Corporation  
Consumer Response Center  
2345 Grand Blvd., Suite 100, Kansas City, MO 64108  
Phone: 1-877-275-3342

If you belong to a credit union, contact:

National Credit Union Administration  
1775 Duke St., Alexandria, VA 22314  
Phone: 1-800-755-1030, Fax: 703-518-6409

If the institution has “National” in its name, contact:

Office of the Comptroller of the Currency  
Customer Assistance Group  
1301 McKinney St., Suite 3450, Houston, TX 77010  
Phone: 1-800-613-6743, E-Mail: [customer.assistance@occ.treas.gov](mailto:customer.assistance@occ.treas.gov)

If the institution is a savings association, contact:  
Office of Thrift Supervision  
Consumer Programs  
1700 G Street NW, 6<sup>th</sup> floor, Washington, DC 20552  
Phone: 1-800-842-6929

### **What happens if you cannot meet your financial obligations?**

If you cannot keep a positive balance in your account after they charge you the overdraft fees plus the original amount you overdrew, the bank or credit union may add negative balance fees, close your checking account and report you to an agency such as ChexSystems. Once they report you, it can be hard to open a checking account somewhere else because ChexSystems shares that information with many banks.

### **What are your rights?**

Your bank or credit union must first get your permission to apply its standard overdraft practices to everyday debit card and ATM transactions *before* you can be charged overdraft fees. To grant this permission, you will need to respond to the notice and opt in or agree.

You have the right to know if your overdraft activities get reported to ChexSystems or another service, and you are allowed a free copy of the report. Contact ChexSystems, Attn.: Consumer Relations, 7805 Hudson Rd., Suite 100, Woodbury, MN 55125, Phone: 1-800-428-9623.

Your bank or credit union must provide you a copy of your account agreement and disclose fees (e.g., interest rates, service fees, balance computation method, minimum balance requirements, transaction and time limits).

If you think your rights have been violated, first try to resolve the issue with your bank or credit union. If that doesn't work, contact the appropriate regulatory agency above.

### **Sources**

American Bankers Association. (2009). *Eight ways to avoid overdraft fees*. Retrieved from <http://www.aba.com/ABAEF/061208AvoidOverdraftFees.htm>

Bankrate.com. (n.d.). *Overdraft protection plans*. Retrieved from <http://www.bankrate.com/finance/checking/overdraft-protection-plans-1.aspx>

Comptroller of the Currency. (n.d.). *Answers about bank accounts*. Retrieved from <http://www.helpwithmybank.gov/faqs/banking.html>

### **Tips**

- Keep track of how much money you have in your checking account by keeping your account register up-to-date. If you need help learning how, ask someone at the bank or credit union to show you.
- If you have a linked account, keep enough money in your savings account to cover an overdraft or you are not protected.
- If you have access to a computer, consider reviewing your account online. The bank or credit union can show you how.
- Use direct deposit for your paycheck. Then you know it will always be deposited on a certain date.

FDIC. (2008, November). *FDIC study of bank overdraft programs*. Retrieved from <http://www.fdic.gov/bank/analytical/overdraft/>

Federal Reserve Board. (2005, February). *Protecting yourself from overdraft and bounced-check fees*. Retrieved from <http://www.federalreserve.gov/pubs/bounce/>

Federal Reserve Board. (2010, April). *New overdraft rules for debit and ATM cards*. Retrieved from [http://www.federalreserve.gov/consumerinfo/wyntk\\_overdraft.htm](http://www.federalreserve.gov/consumerinfo/wyntk_overdraft.htm)