



With New Jersey Banks, New Jersey Prospers

BULLETIN

9. Capitalizing on Punitive Overdraft Legislation is Not Rocket Science

According to mathematician and physicist Isaac Newton, whenever two objects interact, they exert opposite and equal forces upon each other that bring about change. For example, when you sit in a chair, two forces result from this interaction: your body exerts a downward force on the chair and the chair exerts an upward force on your body. These two forces, called *action* and *reaction* forces, are the subject of Newton's third law of motion -- known as the Action-Reaction law -- which states: **For every action, there is an equal and opposite reaction force.**

Action-reaction force pairs make it possible for you to sit. These powerful forces also explain how your financial institution can increase income in an economy that is exerting a downward force on us all.

The Action: As most financial institutions are well aware, overdraft programs and the income they generate are under attack in Congress. **Rep. Carolyn Maloney** (D-NY), chairman of the Joint Economic Committee, has introduced a bill (H.R. 3904) that would require a written opt-in for banks to enroll customers in overdraft protection programs. The legislation, among other things, also would limit overdraft fees to one per month and six per year; require fees to be proportional to the cost of processing overdrafts; mandate that customers be warned if an ATM

transaction would overdraw their account; and require transactions to be posted in such a manner that the consumer does not incur avoidable overdraft coverage fees. (Senate Banking Committee Chairman **Chris Dodd** (D-CT) introduced similar legislation on Oct. 19.)

Although legislative bills are typically written in the harshest terms possible and then amended to achieve a consensus, it is still likely that overdraft programs as we know them today will

significantly change – to the detriment of consumers and financial institutions. As a result, banks may simply start returning all non-sufficient funds (NSF) checks again.

The Reaction: It is estimated that more than 2.2 million bad checks are presented for payment each day—the vast majority of them written to businesses. When a financial institution declines to honor a bounced check, not only is the check writer penalized with an overdraft fee, the business is then burdened with the task of collecting the funds from the check writer. At this point, the check becomes a returned deposit item for the business—typically collectable only 40% of the time using traditional collection methods, such as re-depositing, phone calls, letters, etc.

It is logical to assume, that as more and more checks are dishonored by banks (the action), the number of returned deposit items will increase proportionately for businesses (the reaction)... along with the headaches of collecting these funds. Accordingly, an electronic check recovery (RCK) program will become an even more valuable solution for business customers AND your financial institution.

- Electronic check recovery helps your business customers collect more funds from NSF checks and other returned deposit items, with less work.
- There is no cost to the business.
- Electronic check recovery helps your bank realize much-needed income (through a share of collection fees paid by the check writer) to offset anticipated lost OD revenue.
- It is simple to implement.
- It is completely compliant.

As the number of bounced checks rise, the more likely your business customers are to seek an alternative method to help them collect the increasing number of returned deposit items. When businesses select a third-party collection solution (usually an electronic recovery method, due to its proven 70 to 75 percent success rate), your financial institution loses a measure of loyalty from your business customer. More importantly, your institution loses the income an electronic check recovery would generate, and it incurs additional costs to process these “special instructions” customers. There is no better time than now to consider electronic check recovery to respond to– and earn income from– the inevitable rise in returned deposit items for your business customers.

Sir Isaac Newton’s first law of motion states that objects tend to stay in their current state, unless an external force provokes a change. Although the future of overdrafts is certainly unpredictable, it is likely the change is coming. And when it does, an electronic check recovery program can help financial institutions take advantage of the reaction that will follow.

It’s not rocket science. Just plain smart.

NJBankers endorses BSG Financial's electronic check recovery program, Re\$ubmitt!®. For more information, contact Mike Wummer, executive vice president, at mwummer@bsgfinancial.com.

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