



Editorial Perspective:  
*Outsmarting the Risk of Overdraft Revenue Loss*



## Outsmarting the Risk of Overdraft Revenue Loss

by Kari Anne Arnosk

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Noninterest income has always been attractive, but now it is ... quite interesting. Overdraft fee structures are again the focus of regulatory initiatives. If adopted, they would most certainly drive down noninterest income further for financial institutions everywhere. Advisors **Plus** has seen credit unions' Courtesy Pay revenue represent 15-20% of total noninterest income. This is a significant portion of noninterest income at risk.

The CFPB recognizes that overdraft programs are viable solutions for helping members manage their finances. It wants consumers to stay in the mainstream of financial services providers, and steer clear of payday lenders and other providers that trap consumers into a prolonged and expensive cycle of debt.

Some potential changes to overdraft program regulations could require financial institutions to obtain opt-in permissions for checks and ACH transactions, establish "reasonable and proportional" fees, limit the number of overdrafts allowed over a specified duration and prohibit the processing of transactions to maximize overdraft fees. These new conditions could further reduce noninterest income for credit unions.

Credit unions can proactively implement strategies now to prepare for the potential new rules and move forward with a more positive value-exchange for their membership. Here are a few growth opportunities to consider:

### Second Chance Checking

This product targets the unbanked and underbanked, which represents a growing segment that can be profitable with the right product. The majority of this segment seeks out more costly alternatives with less consumer protection because they typically do not qualify for a standard checking account due to past overdraft or non-sufficient funds history.

The "second chance" segment accepts paying a reasonable monthly maintenance fee that cannot be waived, which may help replace some noninterest income. This segment can even "graduate" to a standard checking product within a specified timeframe, which provides these members with the opportunity to become more engaged with your credit union.

This strategy also positions you for another CFPB initiative surrounding checking account screening policies. The CFPB is currently studying checking account screening practices, the effect these practices have on consumers' ability to open and use a checking account, and the availability of financial products and services that currently meet consumer needs.

### **Checkless Checking (i.e., No Checks Means No Overdrafts)**

This product appeals to several member segments: Those that cannot meet minimum balance requirements, those who want easy access to their money without the worry of unexpected fees and those who do not want to use checks because they more heavily utilize digital banking solutions. The pricing strategy for this product ranges from "no fees, no frills," to charging a flat monthly fee that cannot be waived, to charging a monthly fee with requirements to waive the fee.

The pricing of this product is dependent upon how your credit union positions the rest of your checking product continuum.

### **Overdraft Solutions Web Page**

A dedicated overdraft solutions web page should include detailed information that clearly communicates the specifics of your overdraft programs to your members. Examples include instructions on how to enroll, pricing information, frequently asked questions and education on how to avoid overdrafts. Members will appreciate your clarity and transparency. And this also allows you to address requirements to be compliant with full disclosure on your policies.

### **Organic Growth**

Concentrate on deepening the value of member relationships through organic growth by cross-selling credit cards, loans and other products that address the diverse needs of members. Focus on growing revenue through campaigns that attract new member growth segments and drive higher penetration, activation and usage of services within your current membership.

By employing one or a combination of the steps above, there is a good chance you will see quite a boost to the overall health of your credit union and member relationships.



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### For More Information

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Advisors **Plus** serves as the consulting arm of PSCU, helping credit unions to meet their financial and business challenges and grow. The team provides practical, data-driven expertise in the areas of business strategy, credit cards, debit and checking, marketing growth campaigns, digital and branch channel engagement, and contact center and operations optimization.

With over 250 years of combined experience, Advisors **Plus** consultants partner with credit union management to provide actionable solutions for sustainable business growth, exceptional member experiences and measurable operational efficiencies. For more information, visit **AdvisorsPlus.com**.

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